Punj Lloyd Limited

Q2 FY2008 and H1 FY2008 Results Conference Call
November 2, 2007, 2.00 p.m.

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

Gavin Desa: Thank you and a very good afternoon to everybody on this call. We welcome you to Punj Lloyd's Q2 FY08 and H1 FY08 results conference call. We have with us Mr. Atul Punj, the Chairman; Mr. Vimal Kaushik, Managing Director; Mr. Luv Chhabra, Director of Corporate Affairs; and Mr. Ravi Keswani, Executive Vice President. I would now request Mr. Chhabra to make some introductory remarks post which Mr. Keswani would take us through other details.

Luv Chhabra: Okay. Good afternoon everyone. It is a pleasure to be on this conference call. I will just give a brief summary for about a minute, and then Ravi can go through the details of the finances, and then, we will take the question and answer sessions. This has again been a very good quarter for Punj Lloyd. The consolidated total income for the second quarter of the current financial year stood at Rs. 1,924.71 crore which is about 60.8% higher than the revenues for the same quarter in the last financial year. The operating profits which was really the EBITDA was higher by about 138.4%, and in Q2 compared to what it was in the same quarter of last year, profit after tax in the second quarter of financial year 2008 was up by about 166.6% and stood at close to Rs. 90 crore, actually Rs. 89.4 crore rupees as compared to Rs. 33.5 crore or Rs. 335 million in the same quarter of last financial year. The basic earnings per share for the second quarter stand at Rs. 3.26 per share. As on 30th of September 2007, the shareholder funds were at Rs. 21 billion, the net block stood at Rs. 12.4 billion, the net current assets were at Rs. 19.7 billion, and the total long-term debt which includes the FCCB stood at Rs. 15.6 billion. The current debt equity ratio is below 1, and it actually stands at about 0.71. So with that, I will hand over the mike to Ravi and Ravi would take you through some detail about the financial figures.

Ravi Keswani: I think we can start with the question and answers because most of the financial information Mr. Chhabra has already given. Any specific questions on the financials we can answer when those questions arise.

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.

Moderator: First-in-line, we have Ms. Vibha Issar from Transparent Value Pvt. Ltd. Over to you ma'am.

Vibha Issar: I just wanted to know the details on the real estate venture. Could you give us some details on the land banks and area?

Luv Chhabra: Vibha, we have a joint venture with a group called the Ramaprastha Group. The Ramaprastha Group has a pretty significant land bank, all in the national capital region both on the east side of Delhi and on the south west side of Delhi. The eastern side is concentrated and focused in Vaishali and Indirapuram, and on the southwest side, it is all in Gurgaon covering a variety of sectors. The total land bank available with the Ramprastha group is currently estimated between 800 to 1000 acres and they are aggregating more land. Our deal with Ramaprastha is that initially we set up a 50:50 JV. The first phase of development involves residential, multi-storied group housing at Vaishali which is a 29-acre piece of land, and thereafter, we then get in more land from the Ramaprastha Group into the JV. So, the intent is that we have a large land bank over a period of time of 800 to 1000 acres, and we use Sembawang Engineers and Constructors which is our subsidiary in Singapore to develop landmark iconic buildings in the national capital region. As you know, Sembawang has done some very significant development of real estate in Singapore, not only the sort of low and medium-cost housing for Housing Development Board of Singapore but also the premium residential/commercial development. To give you an example Four Seasons Hotel, some high-end properties in Cairnhill, some malls. So, we will use the expertise of Sembawang to really create these iconic buildings and be a differentiator from what you see in this region.

Vibha Issar: Okay. So the first phase, if I may call it, would be of how many acres and what would the buildings basically be, corporate or housing or what?

Luv Chhabra: The first phase involves 29 acres of development, about 3.5 million sq. ft. of residential group housing. So, these are multi-storied flats and the size of flats would be from 2 bedrooms to 4 bedrooms and penthouses.

Vibha Issar: Okay, and sir my other question would be on the order book, 148 billion is for the whole group including Sembawang?

Luv Chhabra: Correct. That is the order book as on 30th of September. It is the unexecuted orders on 30th of September plus any orders received from 30th September till 31st of October.

Vibha Issar: Do you want to give an updated figure?

Luv Chhabra: We gave the figure as on 31st of October and today it's just a couple of days later, and if there was any order, we would have announced it. So, there is just a 2 day difference. I think getting orders is an ongoing process for the group.

Vibha Issar: Here it says 30th September. So, I asked. Can you give me the figure for June? What was the order book like?

Ravi Keswani: June was I think in the last communication we have already announced. I remember the figure. It was at Rs. 152.

Vibha Issar: Okay, fine sir. My last question would be on the debt/equity ratio. Are you looking for some more raising and what level would you be comfortable if something is coming up in the future?

Ravi Keswani: We will be comfortable maintaining the debt/equity ratio of 1:1. Currently, it stands at a 0.7:1 mark, and now we are seeing some interest on the conversion of FCCB happening. Once that is converted, we will have a pretty good leverage ratio of 0.35 to 0.4, somewhere in between that. So, considering the growth, I think, for the next 12 to 18 months, there will not be any further equity dilution. We can leverage to a large extent for the growth on debt for the time being.

Vibha Issar: Okay. What would it mainly be directed to. If you could give us some color on that; if you are going to increase the debt levels, what would be the plans for the future if I may put it like that?

Luv Chhabra: The debt, Vibha, is related to our project execution cycle and you know, typically in the working capital requirements.

Vibha Issar: For the order book.

Luv Chhabra: Correct. So, these are ring-fenced around the project, and depending on the execution cycle, there are working capital requirements that are required for each and every project. So that is raised, and then it gets extinguished before the project is completed.

Vibha Issar: Yes sir, and could you give me this book keeping thing on the capex, what it has been for the quarter?

Ravi Keswani: For the six month period, we have on a net basis after some deletions which have happened addition of Rs. 50 crore in fixed assets. There is a total increase of Rs. 120 crore and there are some deletions in the sales of fixed assets of about Rs. 70 crore.

Vibha Issar: Yes sir. Thanks a lot.

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

Madhuchanda Dey: I have a couple of questions. The first is if you could throw some light on your new initiative, mainly the Punj-Lloyd Upstream, the stake in Pipavav. You have already discussed about the real estate, especially this upstream venture and the reason behind the stake in Pipavav, and how do you want to go about it going forward? What are the long-term plans?

Luv Chhabra: Okay. Let me just quickly take you through what our plans are on the upstream side. I think there was a brief mention about this in the last conference call. What we are seeing is a significant shortfall in the availability of rigs to service the Indian upstream market, both on the onshore side and on the offshore side. Now, clearly the offshore requires much larger investments and also has a higher risk profile. We have entered this market in a joint venture. The intent is that we will enter first the onshore side and we are in the process of finalizing orders for 2 rigs. The delivery time of the rigs is estimated to be over the next 6 to 8 months and once the rigs are available, you know, then they are deployed for the upstream companies for doing onshore drilling activities. The current day rates which is publicly known are very robust, and the sort of payback periods in this business today are below 2 years. So, we would start with 2 rigs, assess the market scenario, and then make investments. Our initial business plan is, if the market dynamics remain as robust, we will make an investment in about 6 rigs over the next 4 to 6 years.

Madhuchanda Dey: Can I interrupt you slightly at this stage. There is a huge shortage in terms of availability of rigs. So, how confident are you in getting rigs on time to catch the cycle?

Luv Chhabra: We have gone on a global tender. In fact, we are in the process of signing our orders against this global tender. These are all credible parties whom we have called, who have commitments to delivery, and there are contractual requirements wherein if they do not deliver, there are liquidation damage clauses. As I said, many of these companies are American based companies. They supply to drilling companies all over the world, and you are right, there is a huge shortage in the availability of rig capacity. We need to make sure that the parties that we select are those who can ensure delivery schedules and that has certainly been our intent.

Moderator: Our next question sir; is from Ms. Shreya Doshi of Enam Securities. Over to you ma'am.

Shreya Doshi: Good afternoon sir, congratulations for a good set of numbers. Sir, just wanted to gauge, considering the huge potential that is there in hydrocarbons, what is the kind of order intake traction that you are looking at because in the first half, we have done about Rs. 3,000 crore of order inflows, right?

Ravi Keswani: That is right.

Shreya Doshi: So, what is the kind of order inflows that you are expecting in this year, and going forward, what kind of growth rates and particularly in which segments within hydrocarbons also?

Ravi Keswani: Firstly as regards the order intake is concerned or growth percentage is concerned, as a policy, we are not giving any guidance on the top-line or bottom-line number, but as the industry scenario how it appears, Mr. Kaushik can give the insight on that.

Vimal Kaushik: In oil and gas sector, there are very good opportunities on onshore as well as on offshore. The future looks quite bright. We are bidding for a lot of jobs and we hope that order book will be well ahead of expectation of the people.

Luv Chhabra: And just to add on to what Mr. Kaushik said, I think we are now seeing oil prices slowly approaching the $100 mark. So if you can see the quantum of money that is coming into the oil-producing nations, and I am saying significantly the Middle-East region, their own capex will now multiply almost exponentially, and if that happens, we will see that the pipeline of jobs that will come into the market will go up in a commensurate fashion. So yes, as we said, it is a very, very robust scenario going forward, but I will also request Mr. Kaushik to talk about the infrastructure sector too.

Vimal Kaushik: In infrastructure, the road sector I will talk to you about first, it has been a little slow for the last I would say a year to a year and a half, but now, the government has formalized different contractual conditions, and there are many projects coming, in the next 2 to 3 months on the road sector on the BOOT where there will be a private and government partnership, and I hope we should be able to pick up some work on that side. Then on the other side of buildings, ports, everywhere there is a lot of activity, and we are present in most of the sectors, and we hope that we will be able to do well.

Luv Chhabra: And just to give an idea on the other geographical regions of our business; Singapore is seeing very significant investment coming in on the infrastructure side. There is a lot of investment going on in expanding the Metro. There is investment going on in creating new water treatment plants through a public/private partnership. So, pretty large build-outs happening there. Many of you would be aware that there are 2 large casinos coming up in Singapore, which will throw up a lot of building opportunities for Sembawang. Similarly in the Middle-East region, there is a huge amount of investment coming in not only in new cities in Saudi Arabia, but other investments coming in for building water treatment plants, new ports, you know, new ports coming up, expansion of ports, and in Qatar and other such markets. So pretty much like the oil and gas scenario, we see even in the Middle-East region a lot of emphasis being placed by the governments in investing in the infrastructure sector now.

Ravi Keswani: The last thing I would like to add here is that in this business of EPC, the order booking will always be lumpy. So, it is not advisable to compare order booking in one quarter or one H1 with the previous quarters. The order booking is always lumpy in this business, but considering the investment scenario in the oil and gas, infrastructure, and even petrochemicals and bio fuels, the segments and the markets where we are present; we have huge investment plans in these sectors. So order booking is not at all a concern for us.

Shreya Doshi: Sir, in that case since you are focused on both infra and hydrocarbons, what would be the revenue mix that you would be looking at roughly because what we have been doing is, in FY07, we have done about 60 in the civil and infra segment and 40 in the hydrocarbon segment.

Vimal Kaushik: I think, it is the reverse.

Shreya Doshi: Right. Just simply focus on infra as well.

Vimal Kaushik: You see, it is a cycle. Sometimes infrastructure goes up, sometimes oil and gas sector does well.

Ravi Keswani: Where did you get the numbers that we have done on the infrastructure higher percentage?

Shreya Doshi: Sorry sir, I did not get you.

Ravi Keswani: You said on infrastructure, we have done 55%, something like that you said.

Shreya Doshi: Sixty. Actually, I am including SembCorp in that.

Ravi Keswani: SembCorp is not infrastructure. SembCorp includes Simon Carves as well, which includes petrochemicals and biofuels also.

Shreya Doshi: Okay.

Vimal Kaushik: It is mix, it will keep on varying.

Shreya Doshi: That is right.

Luv Chhabra: But directionally, you will see that oil and gas will obviously dominate, and may vary between 65-70 that odd percentage. So, that is the directional sort of indicator going forward, but like Mr. Kaushik said, you get a large and lumpy infrastructure order, and at one quarter, the proportion may change, but directionally, significantly, we will as a group continue to be at least in the interim future, focus on oil and gas and petrochemicals, which is not to say that infrastructure will not grow, but there is growth in both the sectors.

Shreya Doshi: Sure sir. Sir, specifically relating to revenues, you have mentioned in the press release that there has been a completion of certain large orders which is why there has been this kind of revenue growth. So is it that going forward, we will not see this kind of momentum because there would be some new orders which you would be starting on or would it be a similar kind of momentum.

Ravi Keswani: No. I think the trend will continue.

Vimal Kaushik: It is a regular process.

Ravi Keswani: The regular process is there. A few new projects start, and some old projects get completed. So, it is a continuous process.

Vimal Kaushik: There are a lot of big new projects, we are running that, which is in the process.

Shreya Doshi: Sir, specifically on SembCorp again, you had indicated that the new orders which are coming in are at approximately 7% margins. So does that guidance remain the same because specifically in this quarter, we have got 3% operating profit margin for SembCorp. So just wanted to know the reason for that as well.

Luv Chhabra: What we said was that the margins for new orders will not be at 7%. We said, it will be above 7%. So it is not at 7%. Again, I would urge you like Ravi said, do not look at it on a quarter-to-quarter basis. We did explain in the last conference call that in both Sembawang Engineers and Constructors and in Simon Carves, there were legacy orders and there are new orders. So in a particular quarter, if the proportion of legacy orders is larger than the proportion of new orders in terms of execution, then you are going to see margins sort of fluctuating on a quarter-to-quarter basis, but if you look at it on a sort of long term basis, you will see that margins in Sembawang and in Simon Carves will move from the traditional levels of 1-1.5% which is when we did the acquisition, to levels above 7-8% once all the legacy orders are completed and that migration may take a period of 18 months or 24 months. That is the trend that you will witness over a period of time.

Shreya Doshi: Sir, just one last question. I wanted to understand, we have recently got this order from ONGC, the Heera Redevelopment Project. I wanted to understand, we have heard some rumors that there would be some differences between Punj Lloyd Limited and ONGC on that order right now. So, could you elaborate on that.

Vimal Kaushik: No. What kind of differences?

Shreya Doshi: Sir, I am not too sure. Just something that I heard about.

Vimal Kaushik: We are doing that project. At the moment, it is on time. There are no differences, nothing. I am personally looking at that project.

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

Madhuchanda Dey: If you could elaborate on your Pipavav stake.

Luv Chhabra: I think, we have mentioned this in several forums. The reason why we have invested in Pipavav Shipyard is because of more than one reason. The first reason is that and I think Mr. Kaushik mentioned this some time earlier, that there is a huge opportunity on the offshore side in India more specifically but also in many other parts of the world. Now, if we have to compete in this business, we need access to a fabrication facility. We had some time back scouted the market in South East Asia and found that putting up Greenfield fabrication facilities is going to be expensive for us. If you look all over the world you will find that large shipyards also do fabrication of platforms, and we thought that this was a unique opportunity where in the partnership in Pipavav Shipyard, we could put up a real fantastic facility for making very large world-class platforms at competitive pricing. So that is one reason why we have invested in Pipavav Shipyard. The other reason is that we are in the oil and gas EPC business which means there is a requirement for static vessels, pressure vessels, and the likes of that. Again, large shipyards have the capability, the steel-cutting equipment, and the welding equipment. So again, this is another opportunity where the shipyard could be a fabricator or a supplier of static and pressure vessels for the group, and that is not only oil and gas but also on the petrochemical side. The third aspect of course is which is not incidental but as a pure investment play if you were to just look at it as a pure investment play; shipyard business itself is growing at about 30% per annum. So if you consider all these parameters, it has been a logical decision to withstand and make a significant investment in the shipyard and come in with a co-promoter status along with Mr. Nikhil Gandhi.

Madhuchanda Dey: Sir, just one last question. If you could tell me in the order backlog of SEC which is Rs. 4,341 crore, what would be the proportion of orders which are really at very low margins?

Ravi Keswani: I do not have a specific figure, but the estimated figure of the legacy orders in this Rs. 4,300 crore would be roughly about close to Rs. 1,700 crore.
Moderator: Thank you very much ma'am. Next in line, we have Mr. Tiwari from Citigroup. Over to you sir.

Venkatesh: We are a little confused about this rig thing. We thought you were going to enter the business of manufacturing rigs, and is that like you are buying rigs and then you are going to rent it out to other people?

Vimal Kaushik: I will explain to you. One, Mr. Luv Chhabra, talked about initially was on the upstream about the drilling rigs where the exploration of oil or gas is concerned. That we are placing an order on outside party because we do not manufacture that. The second is, we are doing a job for ONGC. The project name is Heera. There it is rig platforms. We are doing the jacket and platform for ONGC where they can put the rigs for exploration. So, there are 2 different things. In Pipavav Shipyard, we are planning to fabricate the platforms and the jackets for the offshore.

Venkatesh: Okay sir. My next question is, have the promoter warrants been converted? If not, when will it get converted?

Ravi Keswani: As of today, the status is, it is not yet converted. Promoters have paid the mandatory 10% of the warrants, and as & when they want to get it converted, we will inform the stock exchanges and all investors about it.

Venkatesh: Okay sir. The third question is how are you looking at raw material prices. I mean things like say steel, bitumen, cement. Are you seeing these prices moving up? How do you see them going forward, and how would you be managing the risk of higher raw material prices? Are there 100% pass-through clauses in your contracts or is it like you are using some kind of hedging mechanism to make sure it does not affect your EBIDTA margins?

Vimal Kaushik: Actually in cement and steel, etc., most of our projects, especially on the infrastructure side, are all cash contracts, and there we are fully covered by an escalation clause. Now, moreover the cement and steel prices have almost stabilized. Now it is not like it was 3-4 years ago when the increase was about 30%, 40%, 50%, but we are covered in most of the cases.

Ravi Keswani: Most of the contracts, Venkatesh, you need to understand on the infrastructure side are long-term contracts ranging between 24 to 30 months and there is no mechanism available by which you can hedge this risk for that long period. You can fix your prices with your vendors for a time ranging maximum up to 3 months or 4 months.

Venkatesh: Okay, sir. But, this was on the infrastructure side. What about on the hydrocarbon side? I do not think, you have fixed-price contracts on the hydrocarbon side, right?

Vimal Kaushik: Okay, I will answer that. On hydrocarbon side also when we pay, I fully agree with you they are lump sum contracts, and when we bid for these projects, we take some contingency factors into consideration. We hedge it for some time and take a cushion in our costing, and our main aim after we get the job is that we try to do the engineering as fast as possible and place the order for all major vessels and everything on the tagged items as early as possible so that risks are mostly covered. In most of the cases for the big items, we generally have back-to-back arrangements also. When we bid, we take an offer from these suppliers with a validity of like 6 months or so. So, we really tie them up, and that is how we hedge these risks.

Luv Chhabra: Venkatesh, just to add on to what Mr. Kaushik said, what we have also done, and this being developed very strongly is that we have set up a global sourcing arm, and the idea is that we should leverage the total sourcing of the group as a group as we move forward, total sourcing of major items could be as much as let us say for the sake of argument a billion US dollars. Now obviously, we can exercise much greater leverage as a group if we were to centralize that sourcing and enter into long-term contracts with major vendors and suppliers as opposed to 3 or 4 companies sourcing 500 million dollars worth, 200 million dollars worth, and 300 million dollars worth. So, that is an initiative that is moving ahead pretty strongly. We are looking at not only long-term arrangements but also low-cost country supplies which is from countries like China, etc. So, I mean, it is a combination of these mechanisms which ensure that over a period of time, we get in a sense the biggest bank for the buck.

Venkatesh: Thank you sir. I just had one last question. Now for example, you do a project. Say, Sembawang is doing a building, or for example, you are doing a hydrocarbons order like for example laying out a pipeline. If you do it in India or if you do it in UAE or any other part of the Asia Pacific region, do the margins differ? Do you make more margins in India vis-à-vis export orders?

Ravi Keswani: Venkatesh, margins are quite similar in India and overseas. The only thing is, there could be difference in the cost. The cost of laying a pipeline in India will be lower as compared to cost of laying a pipeline in the Middle East or in Europe it will be entirely different. But as regards the margins, they are pretty similar.

Venkatesh: When you said that once the legacy orders go out of the order backlog of Sembawang, you expect that margin should move up to 7% plus levels. Now when you are saying 7% plus levels are you including the other income also?

Ravi Keswani: Sembawang does not have any kind of other income. Whatever other incomes are there, they are purely business-related income. So when we say margins upward of 7%, it is the business income margins which we are talking about.

Moderator: Thank you very much sir. Next in line, we have Mr. Danik from Lehman Brothers. Over to you sir.

Tanuj Shori: Tanuj here. Sir, just a couple of questions. The first thing, if you look at the staff cost of the percentage of sales, it has come down if you compare year-on-year. So, any particular reason because your order book is growing and basically on the aggregation front is there is anything on the staff expenses, what will be your outlook.

Ravi Keswani: Well, Tanuj, one thing for any company on the construction side, the elements of cost will depend on the nature of activity and the nature of contracts executed during that period. So, it has no direct relevance with the revenue. For example, if we are executing an EPC project, in a quarter, we are doing the engineering activity where our professional charges or the engineering charges are higher. The second quarter we are doing most of the procurement. Our procurement cost and material cost goes very high. In the third quarter, we are doing the construction only wherein our staff cost increases. So, it is basically a product mix and the activity which we have carried out which determines the cost elements. So, it is not fair to see item by item, how movement is happening in each of the cost.

Tanuj Shori: Okay. Sir, basically in the sense what I meant to ask, like in terms of do you see any problem in terms of attrition or something like maybe middle management or senior level management moving out due to competition.

Ravi Keswani: I think to be very fair on this, every industry in this segment today is facing a challenge in terms of the manpower resources, and we are not any way different from there. We are doing similar things what most of the people in the industry are doing, like we have very attractive ESOP schemes. We have one of the best compensation packages in the industry. We also have introduced this year, KPI-based incentive plans for some of the key individuals in all the 3 organizations. These are normal things which almost every industry is doing. Some of the advantages which we have as compared to other engineering companies in India is that most of the attrition which is happening from the Indian construction market is the offers for the overseas or the dollar salary being offered from regions like Middle East. We have a competitive edge as compared to other construction companies in India that we are able to offer the dollar salary and the overseas employment to employees by remaining within the company and because we have about 70% of the revenues being derived from overseas and outside India. So, we can offer them the dollar salary and the overseas employment by remaining within the organization.

Tanuj Shori: Okay, great, and one thing on the regional front; in the sense if you look at the revenue breakup, historically the Indian portion has been in the range of 30% to 40%. So going forward with the huge domestic opportunity, do you see that mix changing or is it going to be at the same level as what we are seeing right now.

Luv Chhabra: I mean, you are right. The Indian market is growing. I think, we mentioned this some time back. There are other regions which are also growing equally as strongly if not more stronger. These are regions like the Middle East and South East Asia which are again seeing a huge amount of capital expenditure going both in the oil and gas, petrochemical, and infrastructure side. So, directionally, it would probably remain in the same proportion.

Moderator: Thank you very much sir. Next in line, we have Mr. Lokesh from Kotak. Over to you sir.

Lokesh Garg: Sir, a couple of questions. First of all on capex, you have shared that you have added in Rs. 120 crore net, there was sell of Rs. 70 crore, so net addition is Rs. 50 crore. I seem to believe that this was for the half year while the full year capex guidance from you was Rs. 500 crore. So, is there a change in that?

Ravi Keswani: No, I think, there is no change. We gave a range of $ 100 to $. 125 million. I think the capex expenditure during the current year will be in that range only.

Lokesh Garg: So, basically it will jump up in the second half of the year now.

Ravi Keswani: Right.

Lokesh Garg: My other question is related to Simon Carves India Company. It was a large sort of initiative to do design and engineering out of India for Simon Carves and other entities. How is that taking shape and what traction is building there?

Luv Chhabra: It is doing very well. We are up to over 350 engineers, and I think the growth of engineering requirements in the group is very, very strong. We are very confident that over the next 2 to 3 years, there will be an equally strong requirement on Simon Carves India to grow this business into other verticals. So, very robust growth rates. I think, they will more than double their manpower over the next 12 months.

Lokesh Garg: My next question is related to this entire acquisition of Simon Carves and Sembawang, helped us gain pre-qualifications in several segments of business into which we were not doing business earlier. Now, some traction we have seen like upstream orders from ONGC and all that. But apart from that, what is the traction that you are seeing in other segments like ports, marine, or maybe some more complex segments of civil infrastructure like MRT, LRT, etc.

Atul Punj: In terms of traction in all these other areas, we currently are bidding on some very large port projects currently in the Middle East. So, I think the overall synergies between the group are now starting to kick in. On the metro system again, we have been bidding. So far, we have been unsuccessful on the board tunnel side, but we are doing a large number of stations for the DMRC project, and our bidders for some of the new Metro lines out in Maharashtra as well. So, we see that that should start becoming a fairly major part of our portfolio quite soon. Singapore also, we have opened low bid on the large metro line project which is now under final discussions. So, there is a large amount of work happening in all these areas.

Lokesh Garg: My last question is related to structure of JV with Ramaprastha. While you initially shared about the first phase and the holding structure which is 50:50, but what is the financial structure, as in who takes how much upside and brings in what kind of money. Would you be able to share that today?

Luv Chhabra: Lokesh, it is a joint venture. So, whatever upsides come into the joint venture comes to the partners in proportion to the share holding like any other company.

Lokesh Garg: Okay, so any upside is shared 50% with Ramaprastha Group.

Luv Chhabra: It is not any upside. There will definitely be an upside. It will be in proportion to the shareholding. So as I mentioned, we are a 50:50 joint venture today, but the total quantum of development to the joint venture will be immense, and therefore, over a period of 3 to 5 years, the share holding structure may well change with private equity investment and/or maybe even public listing taking place. We do not know that as yet. So, it is something you will see as the story unfolds over a period of time, but all the upside in the JV will come to the shareholders in proportion to the shareholding.

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

Amit: Sir just a couple of questions. How much capital employed would we be having in Sembawang?

Ravi Keswani: In Sembawang, the capital employed roughly it will be in the range of Rs. 270 to Rs. 300 odd crore.

Amit: Sir one more thing is, what would be the execution cycle for these process plants orders that you get.

Vimal Kaushik: Generally 18 to 24 months.

Amit: 18 to 24 months. Sir, among the various sectoral orders that you have, would it be fair to assume that process plants are typically high margin part of the order?

Ravi Keswani: Not really. Firstly, we can talk about the blended margins on the order backlog and not margins for any specific project/segment

Vimal Kaushik: I will tell you. If there is a higher margin, the higher risk is also there. Whenever there is a higher margin, there are higher risks.

Amit: Okay. We understand the risk. Normally do process plants tend to have higher margins than the rest.

Vimal Kaushik: No. it is not true. Because the process plants they are generally very large in value, so, 60% comes from procurement of items and all.

Atul Punj: Well, basically it means that 60% is traded item.

Vimal Kaushik: Traded item.

Atul Punj: Basically, just acting as a trader for the ultimate client, we have with us the balance 40%.

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

Gautam Bafna: Sir, this is Gautam from B&K. Just wanted to know about the competition. Like Punj Lloyd operates in the global market and faces competition from international players, but still it is able to achieve margins which are higher than its competitors. So what puts Punj Lloyd on advantage to achieve such kind of margins?

Atul Punj: One big advantage is the fact that our corporate headquarters are in India and our overheads are in India and not in Milan or Paris or Houston. So that itself is one starting advantage that we have and the other advantage is that we do most of our construction work ourselves. Most of our competitors essentially will subcontract the construction portion out to other contractors which is why you will find compared to others our asset base may be a much bit higher, but that is because effectively we do the entire E, P, and C part internally.

Gautam Bafna: Fine sir, and sir can you provide us a breakup of your other income in terms of other income for SEC and Punj Lloyd excluding SEC.

Ravi Keswani: For Q2 other income for SEC was Rs. 11.46 crore and Punj Lloyd was Rs. 19.07 crore.

Gautam Bafna: Fine sir. Sir, I also wanted to understand the order inflow, like last year you achieved a very robust growth in your order book, but for the past 2 quarters, order book growth has declined. In fact, order book had come down. So, I wanted to understand about that. Is Punj Lloyd choosy in getting the orders or orders are not flowing in?

Atul Punj: Gautam, it is a very simple strategy. Last year this time, we had about 35 projects with an average project size of 30 million dollars. At this point in time, we are sitting on about 38 projects with an average order size of 130 million dollars. The current effort is to raise that average order size up to about 250 million dollars. In large part, the focus really is on account of the shortage of people. So, we are not wanting to grow by just multiplying our workforce manifold. We would rather have single-sized orders becoming larger and larger, and I think we are well on track to do that. In fact as on date if I remember correctly, 11 orders represent about 60% of our backlog. So that is the way that we are really looking to grow the business. We are not looking to make an announcement every week, and I can promise you if you can just hold on there would be substantial increases that you will be hearing about also.

Gautam Bafna: Okay, fine sir, and sir, I also wanted to have breakup of you SEC revenues in terms of revenue contribution from Simon Carves and other entities.

Ravi Keswani: Actually consciously, we do not give that. The reason is the way Simon Carves and SEC have been structured some of the petrochemical business is being carried out in South East Asia is being carried out in the name of Sembawang Engineers and Constructors. So consciously, we do not give that number because it will not reflect the numbers for the business segment.

Moderator: Thank you very much sir. Next in line we have Mr. Jonas from Prabhudas Lilladher. Over to you sir.

Jonas Bhutta: Hi sir. I just had one question on the operating profit of Punj Lloyd ex-SEC and ex-other income.

Ravi Keswani: I do not have the numbers. I can give you without SEC, Punj Lloyd EBITDA margins including other income for Q2 stood at Rs. 182 crore which included Rs. 19 crore of other income.

Jonas Bhutta: And wanted to know that if any FCCB conversions have begun.

Ravi Keswani: We have received one or two notices. So, we are seeing some interest in the conversion.

Jonas Bhutta: So, the current outstanding still remains around Rs. 525 crore.

Ravi Keswani: The current outstanding is at a similar level, but we have received 1 or 2 conversion notices. I do not have the details currently, but as soon as we issue the shares, we will inform the stock exchanges.

Moderator: Thank you very much sir. Next in line we have Mr. Pritesh Chedda from Emkay Shares. Over to you sir.

Pritesh Chedda: Congratulations for a good set of numbers. My question pertains to the subsidiary companies. What would be the quantum of investment planned over the next 3 years in Punj Lloyd Upstream, and where do you plan to take this company forward. Second is in the shipyard business, what is the quantum of investment planned now and subsequently, the total investment, and what are the pending orders if any now, and when is shipyard expected to start.

Luv Chhabra: The total investment on the upstream side which is for drilling rigs is in the first phase about $ 11 million, and in the shipyard, we have invested close to 350 crores. Now, there is no further investment from our side in the shipyard. So, now as a company, they will go out for an IPO at some point of time and raise further funds.

Pritesh Chedda: What would be the total investment plan in Punj Lloyd Upstream, phase I is $ 11 million, should I consider it as a one year phase.

Luv Chhabra: No. It will take place over a period. It is probably too early to say right now because as I told you, we first buy 2 rigs, see the market and then buy 2 more. So, directionally, it should be over a period of 3 years, but this is something which is a moving target which will be reviewed next year.

Pritesh Chedda: Okay, no problem. Second, on the shipyard side, when is the shipyard expected to start or has it commercialized?

Atul Punj: Realistically, we are pushing internally to commence by March next year, but I believe it will be definitely by the end of H1 calendar year next year, about May or June I think we should realistically start seeing production start.

Pritesh Chedda: Correct me if I am wrong. There are some orders which the shipyard has already gotten, no? There is some pending order book, and what is the quantum of that order book if you could share?

Atul Punj: It is around, straight over a billion dollars, and there a few more letters of intent which should start coming in now. The closer we get to actual completion of the facility, the more business we will start seeing coming in.

Pritesh Chedda: Third and the last question. Post SEC acquisition since now you have the technical qualification as well, have you started bidding in the international market as an EPC contractor straight away in process plants?

Atul Punj: Oh, yes.

Moderator: Thank you very much sir. Next in line, we have Mr. Amit Khurana from IL&FS. Over to you sir.

Amit Khurana: Thanks very much. Two quick questions. One, could you clarify how would we intend to capture the revenues that we book in the real estate JV with the Ramaprastha Group. Is that a fair assumption to take that we would officially be doing the execution on the construction part while they contribute the land part?

Ravi Keswani: Yes. All the development and construction work will be carried out as planned by Sembawang Engineers and Constructors, and the first phase of construction;

we should see the actual construction starting in FY09 only. So, the revenues will begin in that year.

Luv Chhabra: Let us just rewind a little bit. You asked about the joint venture. So, this is a joint venture that is going to do the development in the first phase of its inception in Vaishali which is a 29-acre plot. Now, this joint venture will do the development. It is going to give the master planning, development, and construction to Sembawang, and that should start from the next financial year onwards. Independent of the 2, there is a business that is there of the joint venture which is developing real estate and then it will sell that real estate, and there is a sort of arm's length transaction with Sembawang which is master planning, engineering, design, and construction of this real estate for the joint venture company, and that the first phase should start from the next calendar year.

Amit Khurana: What I was wanting to know was that is there any upfront investment we would have to make because while the land transfer happens from the Ramaprastha Group to the JV, how would that work out for us?

Luv Chhabra: We indicated this last time. There are 29 acres of land that the JV will take from different companies of the Ramaprastha Group who have land holdings. They have done the independent valuation of the land, and on an arm's length basis, the JV will get the entire development rights for this land, and that sum has already been frozen and announced. It is approximately Rs. 375 crore for 29 acres of which 50% the Ramaprastha Group contributes and 50% Punj Lloyd Group contributes. Now, the payout for this land is linked to certain milestones including approval milestones.

Amit Khurana: Okay, fine, thanks a lot for the detail. Second question in terms of our capturing the revenues in the shipyard business, I understand the above objectives for taking a stake in the company, you have explained very clearly earlier on the call. What I wanted to understand is how you capture revenues at the Punj Lloyd level.

Ravi Keswani: I will not be able to comment on this at this stage because there are plans post when we invested and thereafter there have been a few new investors who have come in. Our stake is down to about 22.78% now, and they are also planning to go for an IPO. Our stakes will further go down. Now, if the final post IPO stake goes down to below 20%, there will not be any consolidation happening at Punj Lloyd level, but in case it remains about 20%, maybe we will adopt the equity method for consolidation. So at this stage until the final numbers on our shareholding is frozen, I will not be able to comment how it will be reflected in the financials of Punj Lloyd.

Moderator: Thank you very much sir. Next in line, we have Ms. Shreya Doshi from Enam Securities. Over to you ma'am.

Shreya Doshi: Hello sir. Just wanted 2 specific questions on the balance sheet. I wanted to understand the working capital. If you could give the breakup in terms of debtors and inventory.

Ravi Keswani: I do not have the figures in front of me, but current assets as at the end of the quarter stands at about 107 days of the revenue on an annualized basis.

Shreya Doshi: Sir, is the 107 days likely to be the norm going forward as well because for revenues of around Rs. 32 billion, you have had net current assets of Rs. 19 billion which is around 60% actually.

Ravi Keswani: The right way to look at the current assets is on the net basis only. The current level is 107 days, but over the next 6 months to 12 months, we are hopeful that there will be further improvement in the number of days, because of the lack of construction contractors available we have seen upward pressures on the margins, and similarly the payment terms are also getting better for the contractors. So, we are hopeful that it will improve slightly over the next 6 to 12-month period.

Shreya Doshi: Okay. Sir, you mentioned margins as an upward pressure. So, is that the margins are unlikely to improve much from here.

Ravi Keswani: Over the last one year if you have seen, the margins are improving, that is why we commented that there is an upward pressure on the margins, but still we would like to maintain that order book which is currently there, for Punj Lloyd, the margins will be in the range of upward of 11.5 to 12% and for new orders of SEC and Simon Carves; it will be upward of 7% or 7.5%. For legacy orders of SEC will continue to be executed at 1.3 or 1.5% margin.

Shreya Doshi: Okay, and what kind of asset turns are you looking at, asset turns in terms of sales to net block or gross block.

Ravi Keswani: You see the growth in the turnover is significantly higher as compared to the growth in the asset build out which is happening. We are hopeful that by the year end, the asset turnover ratio should be exceeding 6.

Shreya Doshi: Exceeding 6 times? How is that possible, I mean historically it has not been; of course average ticket size has increased, but even then would just like to understand where specifically that rise in asset turns is coming in from.

Luv Chhabra: There are 2 reasons for this or maybe more than 2 reasons. One of the reasons clearly is that compared to historical or 2 years ago, we have got Sembawang and Simon Carves which are relatively asset light companies. So, that is one bit. The other bit is of course the Company has evolved in a manner of speaking or if you will into a much larger EPC player. So in an EPC job, as I think Mr. Kaushik did mention that 60% or 50% or 70% of the revenues are in a sense trading revenues where we use the leverage of our global sourcing and buy various pieces of equipments, etc., and then supply it to the client in a finished form or we work on that and provide it. So, pure construction as a proportion of our overall revenue, therefore, what it was 2 years or 3 yeas ago, has obviously come down because of our focus into large EPC type contracts.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Shilpa Krishnan for JPMorgan. Over to you ma'am

Shilpa Krishnan: I just have 2 questions. The first one is, sir, how do you manage the forex risks associated with a large global E&C operation.

Luv Chhabra: I do not think there is one prescriptive solution as to how we manage. It is done in many ways. Firstly obviously, the finance group keeps getting reports from various banks and various publications as to what the future trends on the currency market are, and now therefore, they take a call and decide, well, and to give you an example if they find that the dollar is weakening again, let us say the euro, and there is a contract in which expenditures are in euros, and revenues are in dollars, and at the time we get a project, they will sell dollars forward for the duration of the contract if they believe that the dollar is going to fall down or they may decide to do it 80% of that. So on a case-to-case basis, it is decided based on available information, based on guidance from banks. In some cases if they find that the currency is strengthening, then obviously, they will not do that. But generally, we take a very conservative view on these matters and prefer to cover ourselves. The other way is that we also generally, and it is not always the case but to the extent possible, the currency of revenue, as I said again to the extent possible, in whichever currency we are earning, we tend to spend in that currency. So if you have a contract in the Middle East and the contract is an AED for example, then all the local salaries etc., are paid of in AEDs. Significant procurement will be done either in local currency or if it is imported will be done in US dollars, and the AED is bench-marked against the US dollar at a fixed exchange rate. So, this way the company avoids these inter-currency exposures, but wherever they are where it becomes unavoidable, then appropriate forward covers are taken.

Shilpa Krishnan: Okay, I see, and you have hedged to the full extent where there is no exposure as such at this point of time.

Luv Chhabra: When I mentioned that we take a call at a period of time depending on the currencies. So, there could be cases where we have fully hedged. There are a number of contracts I can tell you; in Simon Carves case where cross currency exposure is fully hedged. There are some cases where based on available information, based on the advice from banks, we would hedge to the extent of 70% or 80%. So, I cannot give you a prescriptive solution and say this is done for all contracts at all periods of time.

Shilpa Krishnan: Okay, but in general, is it fair to assume that there is minimal risk to revenues and margins and to the value of the outstanding order backlog due to currency fluctuations at this point of time.

Luv Chhabra: That is certainly the intent, and that is why we follow a mechanism of doing this hedging, but there is one part which I would like to state; let us not also forget that there is a translation risk for the group which is, that our revenues are reported on a consolidated basis in Indian rupees, right, and there are some countries which earn revenues or some companies that earn revenues in GDP, there are some which earn in euros, there are some in US dollars, and therefore there is obviously an exposure to a translation risk which is very difficult to hedge, and the hedging mechanism for translation risk do not really exist globally, but it is a classic case where you say, well today the dollar is 39 rupees to a dollar, you make that up, and then some time back it was 48 rupees to a dollar.

Shilpa Krishnan: And just on this issue sir, can you give us the proportion of your order backlog, if you can broadly break it up into AED, USD, euro, and INR on a very rough basis.

Luv Chhabra: Shilpa, we can take this offline. I don't even think Ravi has this number offhand available with him. So the next time you are here or give Ravi a call, I am sure he can give you that breakup.

Shilpa Krishnan: Okay, not a problem at all. Sir, my second question is pertaining to response to a previous question where you said that the character of the business is changing towards lesser construction and more of engineering and design aspect. Now while this could impact your asset turnover ratio positively, do you think it could also change your working capital profile because typically you do not have too much of project inventory when you have more of E as opposed to C in the revenue mix.

Luv Chhabra: It is not a question of more or less, Shilpa. I think, Mr. Punj made the point that when we were a pure construction company or significantly a construction company, the average ticket size of our order was 30-35 million US dollars, right? The intent is to grow that to 250 million dollar average ticket size. We are currently at 130-140 million dollars. So if we have to grow by increasing the average ticket size of an order, it cannot come out from pure construction contracts, right? I mean, the large contracts are the large EPC contract, and you will not see just pure construction contracts of the size of 300-400 million dollars. So if the company has to grow on a sustained basis globally, directionally, we have to move into larger size contract for 2 reasons. One, of course, Ravi mentioned about people being resourced which is in short supply or qualified people being a resource which is in short supply. The other reason also is that there is obviously lesser competition when you move into the sphere where an average order size is 250 million dollars, 300 million dollars, 500 million dollars. There is obviously much more competition when you move into a space where the average order size is 30 or 40 million dollars.

Shilpa Krishnan: Absolutely. My question also was while your ticket sizes are improving, so are your margins and your scale, is it also positively affecting the working capital profile where you do not need to have that much project inventory as opposed to earlier or that is just the same as earlier.

Luv Chhabra: It is hard to just give a simple answer to that. I think it depends on a variety of factors. It depends on what are the payment terms for that contract, how back-ended of the payments are. Directionally, we see that because there is a shortage of good quality contractors, I think after quite a few years, E&C companies are able to leverage in a way of, if you will and exercise better payment terms from clients. So, I do not think, there is a straightforward and simple answer to this.

Moderator: Thank you very much ma'am. We take our last question from Kirti Dalvi from Enam AMC. Over to you ma'am.

Kirti: Good afternoon sir, and congratulations on a good set of numbers. A question on your press release note number 9, which mentions about the arbitration award of Rs. 20 odd crore. Could you give some clarification on that? I mean what could be the accounting treatment or something?

Ravi Keswani: The arbitration award has been given in favor of the Company by the arbitrator in the case of IOCL Mathura contract which we executed. The amount mentioned therein is the outstanding amount appearing in the books. The accounting treatment in the books will be that the amount outstanding will be paid by the client once they accept. If they decide to challenge that award, it will go into the legal maybe at the Supreme Court level. At this stage, the award has been in our favor. If the client decides not to challenge the award, they will have to pay the outstanding.

Kirti: Okay. Suppose in the next quarter this amount comes in our favor, it will be part of my other income or something.

Ravi Keswani: There will be some upside. The quantum of award is higher than the outstanding in the books. So, it will be reflected accordingly based on which heads they are giving in the financial statements.

Kirti: Okay, and the same question on note number 8, since that issue with SCPIL has been resolved, probably that income we have received in this quarter.

Ravi Keswani: Yes. We have received and accounted for in this quarter.

Kirti: Okay, could you share the amount sir?

Ravi Keswani: Actually what we received was about Rs. 6 crore higher than the amount outstanding in the books.

Kirti: Okay, and it is part of my other income.

Ravi Keswani: It is part of the contract revenues.

Kirti: It is part of contract revenue, and the last question would be on your Punj Lloyd Aviation Ltd. which we acquired in this September quarter. Could you share the outlook on that subsidiary?

Ravi Keswani: Yes, we have set up this new company Punj Lloyd Aviation Limited.

Kirti: What would be the areas it will be catering to going forward?

Luv Chhabra: We have certain aviation assets for our construction business, like there is a helicopter which we use, etc. So, this subsidiary is only there to do a limited sort of management of the small assets in the aviation sector that we have.

Kirti: But, we are not looking at the opportunities which are coming up in the domestic airports for that matter, or do we?

Luv Chhabra: No.

Kirti: We are not.

Luv Chhabra: Let us just take that one by one. There is an opportunity in the domestic airports, and there are 2 types of opportunities. One is the service opportunity which concerns ground and cargo handling. We have a joint venture company with Swissport which is the world's largest ground and cargo handling company where there is a 51% equity participation by Swissport and 49% by Punj Lloyd. So, this company will look at all opportunities on the ground and cargo handling side at all the airports in India as and when the opportunities arise. So in the privatized airports, that opportunity will come quicker and possibly in the other airports which are controlled by Airport Authority, that opportunity may come later. So, that is one bit. Domestic and international airports in India, there is a construction opportunity wherein a lot of the terminals will go in either for refurbishment or for a completely brand new design and build. That is something that Sembawang has expertise. We have mentioned quite some time back that they have done the Changi Airport extension. So both Sembawang and Punj Lloyd as a construction partner will continuously look at and evaluate these opportunities and bid appropriately.

Kirti: So, are we bidding for any current airport orders.

Luv Chhabra: Yes. Sembawang will be bidding for some of the terminal buildings.

Kirti: So, we have already submitted some tenders for that.

Luv Chhabra: I would not have the up to date position. I know that we are considering, and whether we have actually bid or we have submitted our pre-qualification document that is a matter of detail.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Atul Punj, chairman Punj Lloyd Limited for the final remarks. Over to you sir.

Luv Chhabra: Okay. I think Mr. Punj has just stepped out. So on his behalf let me just make this final remark. Thank you all for joining in on the conference call. I would just like to conclude by saying that the markets or the business for the group is looking very robust. We are seeing huge capital expenditures coming in on the oil and gas, on the petrochemical, and in the infrastructure sectors. Our geographical reach is expanding. We did mention some time back that we had entered into Libya and there are new markets that we will keep exploring on a continuous basis to grow the business pretty aggressively. Thank you.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.

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