Punj Lloyd Limited

Conference Call Transcript
February 17, 2014

Moderator	Ladies and gentlemen good day and welcome to the Punj Lloyd Q3 and 9M FY 14 Earning Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Sood Head Investors Relations, thank you and over to you sir.
Vinay Sood	Good afternoon everyone and welcome to Q3 FY 14 Earnings Conference Call, joining us today on the call are members of our senior management team namely Mr. JP Chalasani – Director and Global CEO; Mr. PN Krishnan – Director, Finance; Mr. Dinesh Tharani – Group President Legal and Company Secretary; Mr. VP Sharma – President-Offshore. I believe you have received the investor communication and results, just to recap, current order book stands at Rs.18,852 crore, consolidated revenue for Q3 stands at Rs. 2,789 crore and EBITDA at Rs.160 crore. Before we begin I would like to mention that some statements made during this call may be forward-looking in nature and disclaimer to this effect has been sent to all with the conference call invitation. I would also like to emphasize that while the call is open to all invitees it may not be broadcasted or reproduced in any form and manner. Now we can take the questions please.
Moderator	The first question is from Ronald Siyoni of Sharekhan.
Ronald Siyoni	Was there any Forex gain or Forex loss during the quarter?
JP Chalasani	I think before we answer, I just wanted to welcome each one of you as it is my first call with all of you. As part of this group now I would like to each one of you to support us as we move forward. Coming to the question about foreign exchange, we had a gain of roughly about Rs.250 crore last quarter and this time there is a loss of about Rs. 50 crore
PN Krishnan	And these are essentially in the nature of a translation loss which is primarily on account of the adverse movement in SGD vs. USD and USD vs. INR.
JP Chalasani	It is due to the relative appreciation and depreciation of the INR vs. USD and SGD.
Ronald Siyoni	Was there any loss in the overseas subsidiaries as stand-alone operating margins are higher but on the console level the margins are lower?
PN Krishnan	We have recorded losses in our Indonesian subsidiary (Punj Lloyd Oil and Gas) as well as in our Malaysian subsidiary. These are in the nature of provisioning as the

projects have almost come to a close and in order to be conservative we have made some provisioning there.

Ronald Siyoni Would it be carried forward during Q4 or is this the only time this provisioning has been done?

JP Chalasani There will be no additional impact in Q4

Moderator The next question is from Navin Jain of JM Financial

Navin Jain Could you quantify the amount of losses booked and the provisioning made in Indonesian and Malaysian subsidiaries?

JP Chalasani In Indonesia, Malaysia and few other projects in India, we have taken a realistic estimation of costs and profitability, and all put together the provisioning should be in the range of Rs.100 crore.

Navin Jain Would it be right to assume that the margin performance in Q4 is going improve over the subsequent quarters?

JP Chalasani That is our wish and our target.

PN Krishnan Comparing the absolute numbers with relation to the operating income during the current quarter, our cost of material, contractor charges, wage cost and others have been lower or in the same range as in the previous quarter. Forex is the major differentiator.

Navin Jain On the SABIC UK Petrochemicals Limited issue, what exactly are the financial implications, will there be any cash outflow because of this ruling and could you quantify that how do we stand in terms of accounting?

JP Chalasani We are absolutely clear contractually what our rights are and what are our liabilities are under the contract. Any liability under any head is capped at 20% of contract value. The court in UK did not give a final verdict; it gave a recommendation that the cost to complete is beyond the ceiling. We have already appealed against the verdict in UK and that process is on. In the meantime the party tried to file a winding up petition because it is not a final depute for us to pay. We went back and told them that this is premature because we have not even been asked to pay at this stage therefore the filing of petition is invalid. In our view, it is purely to put pressure on us rather than anything else. Legally, we are extremely strong and we do not have an issue in terms of further payments to be made. At the most we recovered up to GBP 28.5 million and if you take 30% of the contract value, another GBP 1.5 million would be the maximum liability.

Navin Jain Is there any sign of settlement that we can see on ONGC?

JP Chalasani Yes, there is a positive light at the end of the tunnel on ONGC. Since the amount cleared by the previous OEC was large, they wanted a second opinion. Hence they have now formed a new committee with Mr. Shunglu, the former CAG, Mr. Hota, the former Chairman of UPSC and Mr. Tripathi, former Secretary of Petroleum. This is the best committee we can have. This committee has been given a time of 8 to 10 weeks to resolve all the issues and this is already a week old so we expect it to get resolved in 7 to 9 weeks. This committee is specific to our case. With the set of recommendations from the previous OEC, we expected things to happen last quarter; however we are now seeing things moving forward with the formation of this new committee. Knowing Mr. Shunglu, who is the Chairman of the committee, we are expecting this to be an extremely time bound program. Looking at the claims objectively, I believe that it is a very positive thing for us and we should be able to put forward our views very clearly. Having done once, it is easy to go ahead and put forward a convincing argument in front of Mr. Shunglu and Mr. Tripathi. We are extremely hopeful that there should be an order in next 8 weeks.

Navin Jain Debt levels have gone up this quarter compared to the second quarter, when are the debt levels expected to come under control?

JP Chalasani That is one of the topmost priorities for the management. In addition to improving our performance and margins, we are also trying to reduce the debt and reduce the interest cost by trying to replace high cost debt with a lower cost debt. There are efforts in the direction of getting some additional funds within the means of the Company so that we can reduce debt. You would see the trend towards the end of this quarter. Resolution on ONGC, improving our margins in key contracts, debt reduction both in terms of the quantum reduction and interest reduction is our priority. All this would require huge amount of effort and you may see results in the next few months.

Moderator The next question is from Dhaval Patel of B&K Securities.

Dhaval Patel Could you brief us on the progress in Libya?

JP Chalasani We expect things to improve and there is a clear environment of things picking up and a proof of that is that we have already started work on one and we expect the balance four contracts to start between Q1 and Q2 of next financial year. Decent amount of work will be done in Libya next year.

Dhaval Patel On the same projects, there would have been some cost overruns and claims for damages, has there been any amount which has come up?

JP Chalasani Right now what we are doing in Libya is just keeping contractual claims alive, ensuring that we are up to date with respect to claims and time delay cost, while doing that we do not want to precipitate the claims at this stage. The important thing is to do work moving forward but not lose track of the claims. That is one area in the Group we are significantly strengthening and we just hired a gentlemen from UK who has over 30 years of experience in commercial international contracts. Today is his first day and thus there is going to be a strong in house commercial team which is going to help the CEOs implement various projects ensuring that we do not miss out on anything. Secondly our claims are very qualitative in terms of documentation required. Our aim is to keep paper work perfect and make the work move because claims will get settled when work happens.

Dhaval Patel The order backlog has been on a downtrend and the order inflow as well as the competitive intensity has been increasing even in the international markets, how do you see the competitive intensity panning and at the same time order inflow environment outside and how does the order book move?

JP Chalasani The trend till now has been that everybody was trying to work on very tight margins, but there is a general realization that you cannot work on tight margins because things don't move so smoothly, The days of low margins are going away in our view. As far as the order book is concerned, though it is down I do not look at that as a concern because even today we have a backlog over Rs.18,000 crore. We are trying to concentrate on large contracts and where we think our effort will fetch better margins. We want to be careful and spend that extra time along with the client so these materialize. I believe order booking will pick up in the next 2 -3 quarters. What is most important for us is how to increase margins and at the same time concentrate on few large high margin contracts which are unordered as of today. We have about five or six large contracts on our radar which can happen in March – April. That is going to be our business strategy. We are not going to chase everything, we are going to chase contracts where the value is large enough, the client is capable of moving this contract fast and the client has adequate financial resources and we have a reasonable margin. It is not worth chasing everything and trying to take some contracting for 3% to 5% margins. Personally, I am not concerned about order book being low in the last couple of quarters.

Dhaval Patel From which markets do you see these type of orders?

JP Chalasani There are few in India with large clients, there are multiple contracts, we are negotiating with them at this stage and we are also looking at few contracts in South-East Asia and Europe.

Dhaval Patel We have been in the process of realigning our debt to our order backlog, what is the progress on that front?

PN Krishnan Not much progress especially after RBI announced the restriction on the ODA elements wherever we are seeking any foreign currency loan, it has to be backed up by Indian parent Company guarantee and there are certain restrictions around that. Having said that, we are taking project specific loans whenever we are able to on a non-recourse basis. We have been working around those facilities in South-East Asia. As regards our operations in the Middle East, we do not have these restrictions, so we are increasingly tapping those markets as well.

JP Chalasani One of the biggest advantage we have as a Group is that we also have our revenues in terms of dollars. We are in a better position to swap the loans and try to get some low-cost loans. A lot of work has been done there. We will relook this entire debt architecture and then see how to reduce debt. Companies with foreign loans also have to monitor the USD rupee movement. One advantage is we have a natural hedge.

Moderator The next question is from Amit Sinha of Macquarie.

Amit Sinha What is the current working capital in number of days and what was the number at the start of the year?

PN Krishnan It was 157 days and now it is about 159 days.

Amit Sinha You spoke about the higher margins currently prevailing in the current orders, this is particularly in which segment?

JP Chalasani When we reviewed each of the projects, we saw that there are some projects wherein the margins are shrinking compared to what we envisaged and which is what being conservative, we have provided for in our books, but there are some projects mostly in pipeline and processing spaces where margins are likely to be better than what we actually envisaged. We have not yet accounted for these at this stage because for anything to go on the positive side, we need to be absolutely sure that it is going to happen and there are no hidden costs. We can take a call on this near completion of the project, after assessing if any claims or counterclaims are there and then we will be able to account for it.

Moderator The next question is from Pritesh Chheda of Emkay Global.

Pritesh Chheda Give some thoughts on the tender and the activity levels in Middle East and CIS markets?

JP Chalasani Middle East is quite active. Middle East is the one place where there is traction. Next year something is supposed to come up in CIS. Libya is moving up and we are also seeing some opportunities in Iraq in which we have participated. There are some large opportunities coming up there and we see some significant opportunities coming up in Chile.

Moderator The next question is from Navin Jain of JM Financials.

Navin Jain What is the total order book in Libya which is included in our total order book?

JP Chalasani It is about Rs. 4,500 crore.

Navin Jain What is the Capex done this year so far?

PN Krishnan About Rs. 200 crore including development projects under Punj Lloyd Infrastructure Ltd.

Navin Jain You mentioned that you are not concerned about the lower order inflow in the last three quarters, is there a conscious strategy that we are now going slow on order inflow?

JP Chalasani We are not going slow; we are becoming choosy, if that results in going slow it is a different issue but our attempt is not to go slow. We have a Rs. 18,000 crore backlog so it is not that we need to really struggle to get occupied. We have large projects which are kicking up now so therefore we are fully occupied. We want to move into the next orbit and we want major contracts. We are categorizing contracts by their size. We want to see the size of the contract as a parameter. Another parameter is the client, what are the credentials etc., next is the country, history is also a parameter. Target is to get all the work that we can within our parameters. We feel that we have cutting edge advantage compared to many other people in the field and therefore we see better margins as a possibility in some of the areas. We can be a preferred contractor for some of these people because of our credentials; we are looking at such contracts. Right now we have 5 to 6 large contracts which can get converted into reality shortly.

Navin Jain From a near-term prospective, we have done about Rs. 9,000 crore of top line in the first nine months probably FY14 would be around Rs. 12,000 crore, that effectively means that for FY15 out of the current order backlog that we have the visibility is maintained compared to FY14?

JP Chalasani Though we do not believe in giving any future guidance but realistically speaking, based on our business plan and focused approach, we are optimistic that next year will be substantially better than the current year

Navin Jain Which segments will drive growth going forward?

JP Chalasani There will generally be a mismatch between revenue and order book. On revenue, we are seeing the pipeline and process continuing to give us a strong revenue next year but on order booking it is going to be pipelines and infrastructure which is going to give us a larger order book, there is always a lag between the order book versus revenue, revenue wise we will continue to have large revenue coming in from top line process in the near future but order book wise there will be a shift between some process to infrastructure.

Navin Jain Since we are saying that we will be maintaining top line numbers in FY14 and FY15, will it be fair to assume that in the next 3 to 6 months we will probably have order inflows with short tenure, short cycles in terms of execution periods of about 12 to 18 months otherwise based on current order backlog of above Rs. 18,000 crore it will be difficult get Rs. 12,000 crore to Rs. 12,500 crore top line?

JP Chalasani The short tenure and long tenure are actually subjective because I have not seen the definition of short tenure, what is a long tenure in our business, you check the pipeline, if I go by your definition of a short tenure of 12 to 15 months, we have some contracts which are 12 to 15 months and we could have some potentially longer than that. Our approach would be to large values short tenure. At the same time short tenure does not mean smaller contract, and when we have limited funds available then obviously that is a different issue but there could be large contracts which can be done in a short time.

Moderator Ladies and gentlemen that was our last question, I now hand the floor back to the management for closing comments.

JP Chalasani As we move forward we will have more interactions. All my views have been based on last two and half weeks experience. I believe we are on the verge of take-off and we will change our direction and then move ahead on this. Right now we are concentrating on improving margins by better execution of contracts and improving the quality of contracts for the future. Secondly, order book in the future needs to improve. A third area where we are concentrating significantly is organization strength, especially in areas where we see the need to strengthen ourselves like contracts and commercials, procurement and various areas where we feel that there is significant potential of upside by putting in some specialized efforts so that whatever efficiency we bring in adds straight to the bottom line or better claim management. One other area we have been working on is how to reduce interest cost both in terms of reducing the principal amount as well as reducing the interest.

I see things changing now in India, some of us may say that it is a wait till May, we will have wait and see but in India we are concentrating on few clients which have nothing to do with the outcome of what is going to happen in May. Some of the public sector clients or the Government clients might have an impact depending upon what happens in May but at the same time as I said that we are concentrating outside. We are looking at Chile; we are also looking at Middle East and other areas where things are looking much better. As we move forward we should move in the right direction. Having said that our investor relations group is available for anyone if you want to have at any point of time a little more detailed chat with us.

Moderator Thank you very much. Ladies and gentlemen on behalf of Punj Lloyd that concludes this conference. Thank you for joining us and you may now disconnect your lines.