Punj Lloyd Limited

Conference Call Transcript

May 31, 2011

Moderator: Ladies and Gentlemen, Good day and Welcome to the Punj Lloyd Limited FY2011 Earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Ms. Sameera Kedar of CDR India. Thank you and over to you.

Sameera Kedar: Welcome everybody to the Punj Lloyd FY11 Earnings conference call. We have with us today Mr. Atul Punj, Chairman, Mr. Luv Chhabra, Director - Corporate affairs, Mr. P.K Gupta – Director, India and South East Asia, Mr. Predeep Gupta – President, Finance and Accounts and Mr. Anil Jain, Head - Investor Relations. Also on the call, there are the other members of the Global Management team. We will now commence the call with opening remarks from Mr. Atul Punj after which we will have an interactive question and answer session. Before we begin, I would like to mention that some statements made during this call, may be forward looking in nature and a disclaimer to this effect has been sent to you with the conference call invitation. Also I would like to mention, that while this call is open to invitees it may not be broadcasted or reproduced in any form or manner. I would now like to hand over to Mr. Atul Punj to share some perspective on the company's result along with its operation and strategies going forward. Over to you Mr. Punj.

Atul Punj: Good afternoon everyone. I would also like to introduce in addition to the team members mentioned, Mr. Ravindra Kansal and Mr. Atul Jain, who are responsible for **Middle East** region.

This quarter has been an interesting quarter in terms of order backlog where we have seen fairly decent growth in the order backlog. We are also seeing a fair stabilization of margins as well as of revenues, going forward. Recently in the Middle East we were confronted with some contractors quoting very aggressive pricing. But now there is some appetite that seems to have filled up for these contractors and we can see that we should be getting some more successes going forward. I don't want to spend too much time on any other overviews. We would rather prefer to get on with it. So are we ready for questions?

Moderator: Ladies and Gentlemen we will now begin with the question and answer session. We have the first question from the line of Venkatesh Balasubramaniam from Citigroup Global Markets India Limited.

Venkatesh B: Can the finance team provide certain Balance Sheet numbers like Total Loans, Minority Interest, Deferred tax Liability, Gross block, Net block, Capital work in progress, Investments, Current assets and Current liabilities in the consolidated balance sheet?

Predeep Gupta: Ok. I will brief you. We have a loan of around ₹ 4,500 crore, debtors and inventories ₹ 6,900 crore, we have cash in bank balance ₹ 1,200 crore. So net debt is ₹ 3,300 crore and then we have a fixed asset of ₹ 2,500 crore.

Venkatesh B: Have you repaid all your convertible bonds?

Luv Chhabra: Yes we have fully paid.

Venkatesh B: If you actually look at your FY11 analyst presentation and if you look at your FY10 release, there seems to be quite a few orders which are getting repeated. For example, the Shah Gas order of ₹ 634 crore, the Nagarjuna Oil order of ₹ 320 crore, the Mangalore Refinery order of ₹ 179 crore, Solar EPC order of ₹ 232 crore, AIIMS Raipur order of ₹ 115 crore. What was the exact total quantum of order inflows in this particular year?

Luv Chhabra: The slide is only telling you the major orders in hand which are currently under execution. It is not giving details of orders bagged during the year only. So maybe the heading was incorrect. But it is just giving you an idea of the projects that are currently under execution.

Venkatesh B: What is the quantum of orders won in the 4th quarter and in financial year 2011?

Anil Jain: It is around ₹ 11,000 crore in total for the full year and ₹ 4000 crore for the quarter.

Venkatesh B: You have removed the ₹ 62 billion order from Libya from your backlog. Any thought process why the other ₹ 35 billion order backlog has not been removed? Even though you have got the advance for that order, it looks unlikely that you will get a chance to execute it in near future.

Atul Punj: The orders that we removed were the orders that were not progressing at all. There was no movement in terms of getting advance payments. So there was no progress on contract documentation that was sent to us. So we decided to be conservative and remove them. On the other orders that are being executed by Punj Lloyd, there have been statements made by both the opposition forces as well as the existing regime in Libya that they would all be honoured. Since these are contracts in progress, we would like to give it some more time to see as to which way we play it. If we find that over the next 6 months, there is no movement on this or maximum 2 more quarters, we will just take a view as to what we need to do with these numbers. But as we stand right now, all the potential authorities in Libya have confirmed that all contracts will be honoured.

Venkatesh B: Your auditor qualifications are totalled around ₹ 3.7 billion at the end of FY10. Now even excluding the Libya qualifications which I guess is not in your control and it is very unfortunate that such large orders have had problems. But even excluding the Libya issue, the auditor qualifications have gone upto ₹ 7.2 billion. Now what are these incremental orders where you have had problems of cost over runs and where revenues have been booked but you haven't received the money. Can you please clarify on these particular orders and what exactly is the problem?

Predeep Gupta: I will clarify about the qualifications first. Auditor's remark on Libya is not a qualification. This is just a disclaimer, because they could not complete certain audit procedures and check some area due to political situation in the country. And as far as the other qualifications are concerned, major pertains to Heera Projects which is being carried forwarded from previous year. Auditors have added certain information about outstandings in unbilled WIP and Accounts Receivables.

Venkatesh B: Yes. I understand about HEERA, what about the remaining?

Predeep Gupta: One is ₹ 90 crore in respect of accounting claim on two projects. This claim is on account of delay in supply of free issue material by client, changes in work scope and price escalation of material used in execution of project. The company had filed these claims and is confident of their recovery.

P K Gupta: These are the 2 projects which have gone beyond their contractual completion date solely due to the fault of the clients and we have claims for extended stay against them and till the time the plants are commissioned and handed over, such claims are not entertained by the clients in India. So these are the qualifications which the auditor have taken because we have claimed money from the clients which will be settled in due course of time.

Atul Punj: Let me further clarify specifically on this, there was a project where a client had to supply us a critical piece of equipment in the month of November. And we were supposed to commission the plant by February whereas the client actually delivered the equipment almost 6 months after. This was in December 2010, much after the original contracts completion date. So obviously we were permitted six months additional time to complete the project which we completed in about five and half months. That is the issue we are talking about. We are very confident. There is no debate about it. It is just a function of time.

Luv Chhabra: I also want to add that all cost has been booked on the project and have been taken into account. And these are only our cost on a very conservative basis that we have assumed for the extended stay on the project because of the delay in supply of free issue equipment, as Mr. Punj mentioned.

Venkatesh B: The idea of asking this question was not about trying to dig into what are the specific orders. It was more from a thought process. I mean since the time we have had our IPO, every year we have seen auditor qualifications. If I actually look at the financials over the last 6-7 years of some of your other competitors like L&T, IVRCL, Nagarjuna and few more like Hindustan Construction and Gammon who also must be facing same problems in certain orders from time to time. Why don't we see similar auditor qualifications in their annual report and why is it that every time we try to take a positive view on Punj Lloyd, the auditor qualification amount keeps going up and we struggle to figure out what should be done in these kind of circumstances because we don't see these qualifications with anyone else. Is it like our accounting treatment is on the aggressive side?

Atul Punj: I just leave one thought with you before I request somebody else to come on the line. If you take a look at the National Highway Authority, where most of the companies that you have mentioned have significant contracts and you look at the quantum of disputes that they have on-going with NHAI, the answer will lie in that question itself. I don't want to speak on behalf of anybody else, but all I am saying to you is to verify the facts from the major clients in the Highway sector alone and if you want to go in to IOCL, ONGC and take a look at the track record of companies that are litigating or arbitrating against them, that itself will give you the answer.

Luv Chhabra: I also want to add that I don't agree with your observation that the qualifications just carry on, For example the qualification on Pipavav was dropped. I think we have mentioned this earlier too that our track record on getting claims whether directly through the clients or through arbitrations have been certainly very good. And we have never lost a case so far barring aside may be a couple of cases which are related to tax. So we remain extremely confident as and when these matters are decided through arbitration, these qualifications will get dropped. We had another qualification on Mathura-Baroda, we got the money from the client, The qualification dropped. There was a qualification on some other matter which went against Gas authority of India, we won the arbitration very recently and that amount of Rs. 6-7 crore was dropped from the qualification. We are unable to comment on how other EPC companies do it, this is the accounting standard and the Accounting Standard says that unless the client approves an extra cost, it cannot be taken into account. And that's the way the auditors ensure the compliance of the Accounting Standard.

Moderator: The next question is from the line of Sandip Bansal from UBS Securities.

Sandip Bansal: Could you tell us what is the status on the ENSUS project and what is the outlook for FY12? I know you do not give any guidance but what are the segments that you believe are going to drive revenues in FY12 and do you believe that margins have stabilized at the levels, which we have achieved in the current quarter?

Luv Chhabra: There has been a settlement between Simon Carves and ENSUS. I think in the next fortnight or in near future, our bank guarantee will come back which is about 2.3 million pounds. They have retention money of about 7.7 million pounds. Right now they don't have money to pay 7.7 million pounds. But they have said that we want to see rated capacity / production for the period of 12-18 months after which this retention money will be returned back to Simon Carves. So this settlement agreement has been signed. We have withdrawn ourself from the project site and we are not doing any further work at the project site.

Sandip Bansal: Do you expect to receive the 7 million pounds of bank guarantee in the next 12-18 months?

Luv Chhabra: No, 2.3 million pounds is the outstanding bank guarantee on the project. We expect to receive it within the next one month. The retention money of about 7.7 million pounds will remain with ENSUS for the next 12-18 months, during which period they will achieve rated capacity and on sustained achievement of rated capacity, they have agreed to return the money. I think it's also an issue with their cash flows because it's a project finance company and they have had serious issues with their own cash availability. So they hope to get that money within said period and then repay it back to Simon Carves.

Atul Punj: On where the growth is going to come from, what we are seeing is huge amount of activity particularly in the Middle East on social infrastructural projects. A lot of this has been driven by recent unrest in the region. Around surroundings of the major countries like Saudi Arabia, we are also seeing some very aggressive build out of housing projects, schools, hospitals or water systems and that really is one of the major focus areas that we are concentrating on. The Oil & Gas and Process business is also moving along but there is no significant jump in terms of bid volumes in that space, that is going to reflect the growth that we have seen in the past. In India of course we are seeing a lot of plans but we are also seeing a bit of slowdown in terms of the Highways sector particularly. Some sectors like Building are moving, fuelled by some comeback in the Real Estate sector. How long that holds, we are not too sure. South East Asia the energy side we are seeing continued growth and we are hoping to play a role in all these places.

Sandip Bansal: Any thoughts on margins?

Atul Punj: We are only focusing on margins now and not focusing on top line. So if we have your good wishes with us, we will be able to sustain it and improve it going forward.

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

Pritesh Chheda: In the order backlog have we excluded Libya orders? If it is excluded then what was the order inflow for the quarter?

Luv Chhabra: The Sembawang order backlog for Libya, as Mr. Punj explained was excluded purely because there was no movement on that project. There was some amount of work done by Sembawang and they have taken all cost into account. From the client side, there was no movement on this project. Approximately ₹ 6,200 crore was excluded from the Order backlog. Work in existing orders in Punj Lloyd has been executed partly on the Oil and Gas side and Infrastructure side. Including that, the total order backlog continues to remain at around ₹ 22800 crore.

Pritesh Chheda: What is that value?

Luv Chhabra: The Libya order backlog is slightly above $700 million.

Pritesh Chheda: This is still included in the backlog?

Atul Punj: Correct. As I mentioned earlier, the basis of this is representations to the United Nations and the commitments of honoring the contracts by existing regime in Tripoli plus the opposition regime. Thus both outside and inside forces in the country are mentioning about honouring the contract and that is why we have included in the order backlog.

Luv Chhabra: We have in any case as a matter of caution, given all our current financial position etc to the Ministry of External Affairs who have filed this data with the United Nations. I think the Indian Government's endeavor is that in the worst case scenario the contractors should be paid the money including value of assets that are lying in their country out of such large assets of the current regime, frozen overseas.

Pritesh Chheda: And the disclaimer which we have put in the notes to account on Libya about the assets, what does it imply? ₹ 990 crore on one side and about ₹ 1,220 crore on the other side, so how should one read in to this?

Predeep Gupta: Assets include Fixed Assets, Receivables, Unbilled WIPS & Inventories, the money lying in the Bank account ,i e advances received from Client, Advances paid to vendors etc.

Pritesh Chheda: That's your ₹ 1,220 crore?

Anil Jain: In addition, ₹ 1,220 crore also includes the branch level assets as well as the subsidiaries assets. Here the subsidiary assets belong to PL Upstream Limited. The assets include both fixed assets and net current assets. Thus, ₹ 1220 crores should be considered as the total exposure to Libya, including branch and subsidiary assets.

Luv Chhabra: So the subsidiary is Punj Lloyd Upstream where there are 2 drilling rigs which are in operation in Libya. So that all is a part of ₹ 990 crore.

Anil Jain: No, all that is part of ₹ 1,220 crore.

Pritesh Chheda: Would you like to give the name of the project where the auditor qualification has been raised that is note 18 and note 20 in the result release.

Luv Chhabra: No, that is not possible.

Pritesh Chheda: What would be the accounting treatment for the Note 18 which suggests cost overrun. Have we booked the cost but the bills are not raised?

Luv Chhabra: Correct, so we have already booked all the cost. The claims, as Mr. Gupta explained, are already lying with the client. As we mentioned earlier that what we have booked in to revenue is a much smaller amount of what the total claims are. So as and when these claims are realized like it has been done in the past, this qualification will go away. And the amount which is realized over and above would be taken into profit or revenue.

Pritesh Chheda: But then you have to first raise a bill for this ₹ 90 crore and that would influence the P&L when the bill is raised.

P K Gupta: We have raised the claims with proper justifications to the client. Client has acknowledged those claims but these claims will be under discussion very soon after the completion of the projects, which is right now in the commissioning stage and after the discussion, claims may be accepted 80%, 70% depending on the justifications from both the sides. What we have accounted for of what these qualifications are formed, they are only 30-40% of the money that we have claimed.

Pritesh Chheda: So ₹ 90 crore is what we have already billed and cost accounted for it. Claim could be much higher. That depends upon the negotiation with the client.

P K Gupta: And we are confident to recover minimum of ₹ 90 crore

Pritesh Chheda: Hypothetically, if you don't realize the ₹ 90 crore, then what happens? Any accounting treatment has to be given to that?

P K Gupta: This would be rolled back by writing it off from the balance sheet.

Atul Punj: If you look at our history on all claims we have always been 100% successful in realizing our claims. So we don't really file claims for the sake of filing them. As we explained before you came on the line that these were on account of critical free issue equipment. A client had to supply equipment, which they supplied 6 months after the contract completion period which made us eligible for 6 months of extension of time. So we are talking essentially for that extended stay of 1 year on the project site for the delay caused by the clients for free issue equipment.

P K Gupta: This ₹ 90 crore is actually for 2 projects. One project is explained by Mr. Punj. In the 2nd project, the other vendor has not completed their jobs. So we have been waiting for them to complete the jobs. So this is not due to our fault. Hence the claim is legitimate and would be recovered.

Pritesh Chheda: And in the note 20, about deductions made / amount withheld, whether the client has made those deductions?

Luv Chhabra: Yes.

Pritesh Chheda: So the bill has been raised but client has refrained at this juncture to pay?

Luv Chhabra: Yes they have withheld that money but we are very positive to recover this money.

Pritesh Chheda: I Just wanted to understand the nuances of those writing of auditors.

Atul Punj: The problem as Mr. Chhabra explained earlier over a period of time, various qualifications have come in and then we have followed up and realized our money which has happened at almost 7 or 8 instances since we went public.

Pritesh Chheda: Lastly the ₹ 23,000 crore backlog, how much is executable next year? Would you like to give some indication?

Luv Chhabra: The order cycle depends on the type and sizes of contracts. With the pipeline contract you are familiar, anything between12 months to 24 months on executing a contract unless there are issues on Right of way. A typical road project would take at least 36 months to execute. So it depends on the nature of the contract. So at an average, this sort of order backlog should turn over into 2-2.5 years.

Pritesh Chheda: Could you give us some idea on the bids in pipeline that we have currently?

Atul Punj: Currently we are low bidders on approximately ₹ 4,000 - 4,500 crore worth of work which should be finalized.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Out of ₹ 1,219 crore of receivable plus fixed assets plus WIP, you already have against this ₹ 514 crore worth of advances which means there is a difference of about ₹ 705 crore. What would this really comprise of? Would this be primarily fixed asset, receivable, WIP?

Anil Jain: That also includes bank balances.

Pulkit Patni: What I am trying to understand is that your fixed assets would be fairly secured there. But in terms of receivable what exactly is the receivable amount out of this ₹ 705 crore differential? Can you please highlight that for me.

Luv Chhabra: What I suggest is, if you can give a call to Anil, we don't have the figure off hand. We can give you the breakup of this.

Pulkit Patni: I'll do that. I also wanted to get a status on the ONGC dispute. When is the case likely to come up for hearing? It was supposed to come in the end of May, if I remember it correctly.

Luv Chhabra: No, it's not the hearing in court. It is a process of Arbitration. We appointed our arbitrator. ONGC has appointed their arbitrator. The 2 arbitrators have now appointed a third presiding arbitrator and we expect the hearing for arbitrations to start, this 3rd June.

P K Gupta: So 3rd June is the first hearing where the agenda, etc., or the future course of action will be fixed.

Moderator: The next question is from the line of Naveen from Indiabulls Securities.

Naveen: Could you please share the figure of inventories at the end of FY11?

Predeep Gupta: Inventories at CFS level is ₹ 4,700 crore approx..

Naveen: Looking at this inventory, it is almost 60% of our top line, so I am just wondering why it is so high and do you expect it to come down significantly over the course of next year and does this show that the kind of work-in-progress build up that has happened and that probably will get recovered over the course of next 6 months or one year.

Predeep Gupta: This is majorly from Libya and the HEERA Project. .The qualification on Heera has already been discussed. The rest is ongoing unbilled WIP of running projects and this is actually going to be billed when the milestone of execution is achieved.

Naveen: How much is Libya, out of this ₹ 4,700 crore?

Luv Chhabra: Libya must be around USD 125 million.

Naveen: So that is what, would also be there in the ₹ 1,200 crore Libyan Assets? Basically, it is receivables and WIP?

Luv Chhabra: Correct.

Naveen: This time you have given a further disclosure or further information saying that there is further outstanding debtors of about ₹ 85 crore on the project and unbilled work-in-progress of about ₹ 160 crore. Is that part of auditors qualification or it is just for information sake you have given as disclosure?

Predeep Gupta: This is just for information in respect of Heera project of ONGC. These are outstanding status in unbilled WIP and Account Receivables. So the qualification of ₹ 243 crore is continuing.

Naveen: This ₹ 85 crore and ₹ 160 crore are already approved by ONGC or are we going to still make a claim with ONGC, how is it placed?

Luv Chhabra: No we are not making a claim. There is a certain contract value. There is something that we have billed. There are other bills which are yet to be raised and we will resolve this during the process of arbitration because we don't want to raise the bill unacceptable by them and allow any deduction or LD resulting in disputes. So these things will be discussed during the process of arbitration.

Naveen: Will this ₹ 85 crore and ₹ 160 crore also get settled along with the arbitration process?

Luv Chhabra: The whole case will get settled including our claim of ₹ 1,300 crore in the process of arbitration.

Naveen: The Other operating income in this quarter is about ₹ 134 crore. So just wondering what is the key component of that?

Predeep Gupta: Other Operating Income comprises of Interest income, Sale of Scrap, Export benefits and Exchange fluctuation impact and Creditor's balances (not payable) written back.

Moderator: The next question is from the line of Gautam Bafna from B&K Securities.

Gautam Bafna: Crude prices remained quite robust for past few months but at the same time, we have not seen pick up in order inflow from Oil & Gas segment. What is the key reason for that?

Atul Punj: Rising Crude prices don't actually reflect that oil companies are going to splurge on projects. What you see happening in India for example, you read every day in the papers due to this oil subsidy, there is not much cash available with these except for ONGC which has a program. But you also find competitive pressures where a lot of contractors are willing to quote lower and more aggressive numbers. In the Middle East we are seeing a big uptick of Oil & Gas orders now and as we have said earlier some contractors have been quoting extremely low. Infact in our analysis that we did yesterday we discovered some of the contractors are bidding up to 50% of the client's budget. Now there is no way that we are going to drop our prices to those levels which are unsustainable. And whether they are being supported by government subsidies from their countries we can't say but now we are seeing that they have picked up a lot of work and they don't have the capacity to really expand. So we are hopeful as you mentioned right now that low bidders are close to about ₹ 2,000 crore to ₹ 2500 crore worth of the work in the Middle East alone. So hopefully you start seeing an uptick in some of these orders and also if you know that there is a fair lumpiness in these large orders. For example the last quarter of last fiscal was resulted in about a billion dollars worth of order booking and we are hoping that in this quarter again we should see close to those amounts.

Gautam Bafna: What is the status on our BOT project? Have we achieved financial closure?

Luv Chhabra: Not as yet. I think we have 3-4 months left to achieve financial closure. So we will achieve it.

Gautam Bafna: There was a media report that Punj Lloyd is planning to list one of its subsidiary in Singapore. So can you throw some light on that?

Luv Chhabra: No Comments.

Luv Chhabra: I just want to add on the BOT Project. We have already gathered in principle approval for entire project and started getting sanctions from number of bankers.

Moderator: The next question is from the line of Mayur Parkeria from Wealth Managers.

Mayur Parkeria: If I do just a little bit of math on the order book, when we started the year we were around ₹ 28,000 crore of order book. And we have done sales of around ₹ 8,000 crore. So that should bring ₹ 20,000 crore and then the order intake as you mentioned is around ₹ 11,000 crore so that should again take it back to ₹ 31,000 crore and if I remove ₹ 6,000 crore of African orders from the order book, the closing should come back somewhere close to ₹ 25,000 crore and what right now we have is around ₹ 22,800 crore. Are there some other kind of changes that explain the difference?

Luv Chhabra: I don't know the reconciliation of the number, if you can sit down with Anil, I am sure the figures can be reconciled.

Atul Punj: It is just a matter of mathematics. There is no way the numbers can be off.

Luv Chhabra: I think the only orders that have been taken off are those Sembawang orders in Libya.

Atul Punj: That is the ₹ 6,500 crore which we removed.

Mayur Parkeria: There can be some translation issues which can come in here but such a large difference should not be there because of only translation.

Atul Punj: There should not be.

Mayur Parkeria: We have always seen Punj Lloyd struggle on operating cash flow side over the last couple of years. I understand that we have been having some issues over some time, but have reached a scale of ₹ 10,000 crore. Obviously with one-off blip I will remove this year but having this kind of scale even in FY11 we do not see any cash accruals. How do you see going forward with respect to the cash accrual? I understand that you have given a very positive statement with respect to the margin that at least will be maintaining and there is a focus. But apart from margin there is a cash side which is still separate. How do you see that going forward?

Luv Chhabra: On contracts there is a particular payment cycle. We execute the contract and get payments. I think our big challenges have been largely with Indian Government owned companies where they have either delayed or withheld payments for the last 15-20% portion, very often for reasons which are not really in our control. So, other than that we haven't seen too many challenges with clients agreeing to pay money. I mean most international clients even if there have been time extensions during the pending state of the contract, they have paid money. We have seen that in Malaysia and many other contracts.

Atul Punj: Just to build on that, for example, I think we had a significant number of closures of contracts in the last few months and the last 10-20% is withheld by them till they complete the reconciliation of all materials, entire punch list, etc. So if my memory serves me right, there is about ₹ 1,000 crore, due for release now.

P. K. Gupta: ₹ 700-800 crore for the 5 projects, which have been commissioned during the last year.

Atul Punj: So this is a normal process and you need to have enough of series of these for it to become an insignificant number.

Mayur Parkeria: Can we fairly assume that in FY12, our debt level will not improve or rather will come down, will really depend on whatever recovery we may be able to do because there is growth which can come in but apart from growth if the cash flow doesn't not percolate down then we may continue to see our balance sheet deteriorating. So can we fairly assume that the debt levels have probably peaked and as we get the money recovery from the projects which are closed, that will go down to reduce some of the debt levels and may improve the balance sheet?

Atul Punj: Without getting in to too much explanation I would just like to say that we will be taking drastic actions to reduce our debt levels.

Moderator: The next question is from the line of Kirit Jain from Dadashaw & Company.

Kirit Jain: Can you give an update on your BOT projects and equity requirements for the next one year?

Luv Chhabra: We have one BOT project which is in Bihar, Khagaria-Purnia**.** This is an annuity project and typically on annuity projects we should be able to get 80% debt funding and there is possibility of increasing further debt by getting some amount of sub-debt. So from the value of contract, 85% of it will be debt and 15% will be equity. Out of that, typically 25% of the equity has to come up front and the balance equity will then be put in to the project over the execution cycle of the project. The other project that we have is 5 MW solar power project which is a small project. It is under the Prime Ministers Solar Mission. There too the concession agreement has been signed. The Power Purchase agreement has been signed with the NTPC subsidiary. The total project cost is approx. ₹ 70 crore. So similarly in this project we should get debt-equity ratios of 70:30 and that's the quantum of equity investment which will be in the region of about maximum of ₹ 20 crore.

Kirit Jain: In the order book which we have of ₹ 22,800 crore, what would be our estimated margins which we would have built in to these projects?

Luv Chhabra: There may be about 50 odd projects in the order book. I don't think there are any averages in this. The margins on projects vary from region, geography, type of project and also on the segment in which it exists like Infrastructure, Oil & Gas. I mean we just have to emphasize we have seen a lot of competitive pressures all over the world, in almost every project that we have seen. If you look at the BOT sector you see for half a billion dollar projects there are 17 bidders that bid for half a billion dollar projects that have to be project financed and you have to often take a toll risk for duration of 15-18 years on a project. Not only in India, but it is a similar situation in many other parts of the world. It is understandable because there was one region of the world which had a lot of work and that quantum of work has almost shut down or came down dramatically. As a consequence of which now contractors are flocking to markets where countries are spending on either Infrastructure or on Oil & Gas projects.

Moderator: The next question is from the line of Sharad Avasthi from SPA Capital Services.

Sharad Avasthi: What is the kind of addition that you expect to make in your order book in the current year because the last year has relatively been good for you? What is the kind of order accreditation that you can expect in the current year if you could highlight the segments?

Atul Punj: I think in the order book we hope to have a backlog of somewhere close to about $8 billion by the end of this year if not more, on the minimum side. Currently we are standing at around $5.5 billion. So after catering for execution of projects and the run off, I think we will see an increase where we will end up at about $8-8.5 billion which is what we expect. It could be more, hopefully not less but so far we seem to be on track.

Sharad Avasthi: And you expect only Infrastructure to dominate or you expect your Process segment to come back in?

Atul Punj: We are going to see a reasonable mix of the two. I don't think we are going to see one side. There will be some quarters where you will see a surge of Infra business and next quarter you will see a surge of Oil & Gas business. So there is no real pattern to this, it really depends on who is finalizing which project.

Moderator: The next question is a follow up from the line of Sandip Bansal from UBS Securities.

Sandip Bansal: What is the status on 2 other projects which Simon Carves was executing?

Atul Punj: Which are those?

Sandip Bansal: One was in Thailand and I think there was one more project which Simon Carves was executing as an entity.

Luv Chhabra: There is one project in the Middle East which is the Gulf floor project. That is going on well. In fact the contract has been novated by the client to Punj Lloyd. The other one is PTT Thailand project which again is in one of the subsidiary of Punj Lloyd, PLPT. That is going on fine.

P. K. Gupta: It has been commissioned and there were 3 performance guarantee test run. 2 of the test runs has already been completed. For the 3rd one, it is slated to happen in July and that's the end of the story for this project as far as the client is concerned.

Sandip Bansal: Did we have to incur any cost from the ENSUS project in this quarter?

Luv Chhabra: I don't remember the number off hand but if it is, it is very marginal. It's nothing significant.

Moderator: Sir would you like to make any closing comments?

Atul Punj: Well I think in conclusion we hope we have answered most of your questions. And we look forward to interacting with you in the next meeting.

Moderator: Thank you Gentlemen of the Management. Ladies and Gentlemen on behalf of Punj Lloyd that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
