Punj Lloyd Limited

Investor / Analyst Conference Call Transcript
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Moderator Ladies and gentlemen good day and welcome to the Punj Lloyd Q1 FY13 Earnings Conference Call. As a reminder all the participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vinay Sood – Head – Investor Relations from Punj Lloyd . Thank you and to you sir.

Vinay Sood Good afternoon everyone and welcome to the Q1 FY 13 Earnings Conference Call. Joining us today on the call are members of our senior management team.
Mr. Atul Punj – Chairman, Mr Luv Chhabra – Director Corporate Affairs, Mr. Raju Kaul – President and Chief financial Officer, Mr. S S Raju – President and CEO B&I, Mr. Pardeep Tandon – President and CEO – B&I, MEACIS and Mr. V P Sharma – President, Offshore.

I believe you have received the communication and the results. Just to recap, current order book stands at Rs.26,206 crore, consolidated revenue stands at Rs. 2,780 crore, EBITDA is at Rs. 290 crore and PBT at Rs.15 crore. Before we begin I would like to mention that some statements made during this call may be forward-looking in nature and the disclaimer to this effect has been sent to all with the conference call invitation. Also I would like to emphasize while the call is open to all the invitees it may not be broadcasted or reproduced in any form or manner. I will now request Mr. Chhabra to make the opening remarks and then we can start with Q&A.

Luv Chhabra Ladies and gentlemen welcome to this Call for discussing our Q1 FY13 results; we will now take questions.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Rahul Agarwal from VEC Investments

Rahul Agarwal Operationally your top line and EBITDA performance seems to be improving for the last 4 to 5 quarters, so that is quite satisfying but in terms of the gross debt this still stands at about $1 billion. Could you help me in terms of the targets and what kind of exploratory measures are we discussing in terms of replacing our Indian debt with the foreign debt?

Luv Chhabra There are a couple of things we need to highlight; as volume of business grows the working capital requirements will increase so that is one reason for increase in debt and we think the ratio will be in the region of about 2:1 to 1.9:1, , which is around the current level. With regard to what are we trying to do to reduce the debt, there are a couple of things we are doing, one is we are looking at our existing assets which have yielded good returns, and will try to dispose these off over the next 6 to 9 months so that should give us some amount of headroom in terms of a marginal reduction in the quantum of debt. In converting some of the debt to foreign debt, I think the current global environment is challenging. We have made attempts to do this but due to the number of conditionalitiess existing in trying to raise foreign currency bonds etc, we are finding it difficult, so we will wait for the economic environment to stabilize especially in the international market and then take a call and see how we can progress ahead. I think the longer term view is that when Sembawang's coal assets start producing, there is a possibility of listing Sembawang, sometime towards early of next year and part of that listing will be a primary sale which will also help in reducing the debt. However that is over a period of 9 to 12 months.

Rahul Agarwal When you say in terms of asset sales can you specify which of these assets?

Luv Chhabra There are investments we have in companies like Olive etc which we will try to unwind. There are real estate assets in the form of office buildings etc, and these are assets that we will examine over the next 6 to 9 months and try to liquidate.

Rahul Agarwal There are two other reasons as well, to decrease debt, one was obviously some money getting freed up from our legal issues and second was obviously in terms of release of working capital from Libya, so are these both things on track?

Luv Chhabra The effort to sort out and release the money that is stuck up in litigation is an ongoing exercise. They are pretty much on track but like most legal issues it is hard to pinpoint when exactly the penny falls and we're able to recover the money. A number of cases are in the hands of High Courts or in the hands of the arbitrators. We are unable to commit at this point of time when exactly that money will flow. On Libya as we mentioned last time, the upstream drilling operations have started and the second rig has moved out; it has gone on to Gabon where it is working for an Oil India operation so that is a positive development. On the infrastructure side, the discussions have started with HIB (a) to renegotiate contracts and (b) now that the client has declared and accepted that it was a force-majeure situation, claims have been filed and we are in discussion with the clients to recover our claims for idling of equipment, damage of assets and idling of manpower, evacuation of manpower and after that we will start the process of commencing work as soon as the client is ready to pay us money. Now that the elections are over, a government is in place, the transition from NTP to the newly elected government is happening, we expect activities to progress in Libya over the next 3 to 6 months both on the infrastructure and on the oil and gas projects.

Rahul Agarwal New order wins and the order pipeline which we foresee for the balance of the year, so in terms of new orders we got about 1800 to 2000 crore of order this quarter?

Raju Kaul Yes Rs 2,000 crore.

Rahul Agarwal And in terms of expected tenders or expected orders where we have put our bids can you just give me some flavor in terms of many big projects we expect to fructify in the next nine months?

Luv Chhabra We cannot answer a leading question. Needless to emphasize the order backlog is slightly above Rs 26,000 crore, bidding pipeline continues to be good, in some markets very good and in some markets not so good but we continue to expect the momentum to be maintained for order booking in the next three quarters of this year.

Moderator The next question is from Kesvinder Suri from Span Capital Services.

Kesvinder Suri First about the disinvestment of the non-core assets and investments, would there be an indicator of quantum as to how much they would be?

Luv Chhabra It is hard to say right now, when that happens we will certainly let you know.

Kesvinder Suri What quantum of your orders in your order book is from Libya?

Raju Kaul Around Rs 4,000 crore.

Kesvinder Suri What is the amount of claim under the force majeure clause which we planned to file for?

Luv Chhabra Its a matter of dialogue and discussion with the clients, we will file a number of claims and the client will not accept all claims so I think once we see a finality on the discussions that number will become known.

Kesvinder Suri And out of the order book of 26,000 crore, what quantum would you term as slow-moving or almost stagnated orders?

Luv Chhabra Other than Libya , everything else is going planned.

Moderator The next question is from Pritesh Chheda from Emkay Global Financial Services

Pritesh Chheda If you could just recap the orders which are there of Libya in the backlog, because we had cancelled few orders a few quarters back, so if you could justly recap that what is included in the backlog now and if I have to look at your comment in the presentation, which one of that order has actually started executing?

Luv Chhabra We have orders in the infrastructure, oil and gas and the third one is an ongoing work, which was a drilling operation by a subsidiary called Punj Lloyd Upstream, where 2Nos, 1500 HP rigs were deployed on the eastern side of Libya where the oil is present. The first business to start off the ground in Libya post-conflict is the drilling operation. Of the 2 rigs, one rig has moved out to Gabon to do work for Oil India. The second rig has started drilling operations in Libya. On the infrastructure side, the client has recognized in their written communication that a force majeure situation has arisen as a consequence of the conflict and we have now filed our claims with the clients, so the process of dialog with the client is on and we are hoping that with the new government having come in place now and elections having been completed, this process of resuming our operations on the infrastructure project will happen in the next 6 months and I think the same applies for oil and gas contracts.

Pritesh Chheda Have we billed anything to the client before the conflict started?

Raju Kaul Yes, there are pending bills.

Pritesh Chheda Basically the renegotiations whenever they happen and in whatever form it happens, there is a chance that the orders would come back to us and there is a chance that the orders may not come back to us both those possibilities do exist?

Atul Punj Let me put this in perspective. We had five infrastructure contracts, we had one oil and gas contract and we had one drilling contract. The drilling contract has already been renegotiated; of the 2 rigs we have redeployed, one rig in Libya, the second rig has been moved to Gabon for another contract which we have with Oil India as was mentioned just now by Mr. Chhabra. Of the five infra projects 2 have been renegotiated and we are waiting for their signal to restart work. The revised terms have been agreed which are pretty favorable and balance key discussions are based on the claims that we have filed with them which they have asked us to file. It is not something that we have arbitrarily done and the same thing holds true for the pipeline contract. We're not seeing any signals of there being a cancellation, in fact we have seen a strong pull from them for us to finish the job.

Pritesh Chheda In the remarks for Sembawang, we mentioned about some coal assets.Could you tell us more about that?

Atul Punj Sembawang is a 50% owner of a coal mine in Indonesia in the Kalimantan region, that mine is currently under development and we expect exploitation of coal to happen towards the early part of next financial year.

Pritesh Chheda Could you comment on some reserves or potential there?

Atul Punj We are 50% investors in the mine and the total reserves of that mine are currently estimated at slightly over 50 million tons.

Pritesh Chheda Then my question about the Middle East and the order pipeline or markets there and how it shaping up and your comments?

Atul Punj We do not want to give too much detail in terms of forward-looking information but the deal pipeline is fairly robust as was mentioned. The Middle East is probably emerging along with South-East Asia to be as the strongest market. There is a lot of push now in the infrastructure space. The oil and gas and petrochemicals side carries on the way it was, with the same momentum, but there is a huge amount of spend now going on in the social infrastructure space as well which means power, desalination, hospitals, schools, highways. A lot of that activity is happening, much more than we have seen in the past, so I think we are quite comfortably placed to capture the opportunities that present themselves.

Pritesh Chheda Which countries are kind of better off in that particular zone?

Luv Chhabra Well I think the big oil producing countries are obviously right ahead, so you have Abu Dhabi, Qatar, Saudi Arabia which are right on top and then you have emerging markets which are looking to stabilize their institutions like Iraq, which will be a big market as well.

Pritesh Chheda We have heard that Koreans who are competing in this market have brought down the terms of trade significantly in the new order inflow, your comments there. How are the terms of trade now in the business which is flowing from these regions?

Atul Punj There are tendered projects and negotiated projects. Our focus is more on the negotiated projects than tender projects and it is true that the Koreans have swamped large contracts but they do this every 10 years. This is the third time that I am witnessing it, when I started my career they were known to sweep the markets. They then followed it 10 years later after they got burned and now this is the third wave that we are seeing but this is something which happens generally in our business. We have the same issues in India, where we have a lot of Indian companies who tend to change the terms of trade as you call it to unworkable numbers, so that's just a part of the course of our business.

Pritesh Chheda On the forex side since we deal in multiple forex so just wanted to understand the policy that we have deployed. Second if you can give us in the consolidated revenues how much is the rupee revenue in it and how much would be other forex revenues and which forex should one look at for a better understanding or analysis?

Luv Chhabra On the first part, our policy is that to the extent possible, the currency in which we earn is the currency in which we spend or borrow. As an example, for our projects in the Middle East (almost all the currencies in the Middle East are linked to the US dollar) our effort is most of the expenditure of procurement will be in the US dollar and the borrowings will be in the local currency and that's a process and philosophy we tend to follow across all the regions. The same process is followed in Singapore and the same, to the extent possible, is followed in Indonesia. There are some markets where this is not always feasible but we try to stick to this policy.

Pritesh Chheda You said that the expenditure would be in dollar and the borrowings would be in the local currency?

Luv Chhabra I gave the example of Middle East because there all the currencies are pegged to the US dollar at a fixed exchange rate. The dollar andlocal currency is freely exchangeable at a fixed exchange rate.

Pritesh Chheda And if you could give us the composition of your revenue in a broader rupee and the other currencies and also for the debt?

Raju Kaul If you look at the top line around 35% is from operations in India and 65% are from operations abroad so that is the rough breakup.

Pritesh Chheda And most of that 65% should it be dollar?

Raju Kaul It is again a mix of different currencies, it is part in Singapore dollars, dollars and small part in Malaysians Ringgit as well.

Pritesh Chheda And for the debt part if you could?

Atul Punj Debt is taken in the currency in which we are receiving money against the contract, so if your question is trying to figure out what is our exposure, we generally are fairly hedged because we are not borrowing in dollars to spend in India or for projects where we have been paid in rupees for example. We borrow in rupees for projects for which we are being paid for in rupees.

Moderator The next question is from Rajesh Agarwal from Moneyore

Rajesh Agarwal Can I have the breakup of other operating income and other expenditure?

Raju Kaul Other operating income will primarily constitute income from scrap sale, some provisions write back, primarilyy on account of these things and some forex gain.

Rajesh Agarwal Other expenditure has jumped significantly so can I have the breakup of that?

Raju Kaul It is primarily employed related, trades and taxes, hire charges, lease rentals.

Rajesh Agarwal Why that has gone up significantly from 530 crore last quarter to 630 crore this quarter?

Raju Kaul It has gone up in proportion to the top line.

Rajesh Agarwal We have seen a significant reduction in contract charges and a significant increase on employee cost, so is it that we are doing more of the work in-house by our own employees instead of outsourcing them to contractors, is this a strategy or is it due to some phase in the project?

Luv Chhabra I don't think you can establish a pattern. We have a multitude of projects across different geographies. The execution philosophy varies for every project so this can change depending on which project is at a particular stage of the execution cycle. Please don't interpret this as a trend which indicates that we are subcontracting more work or doing more work in-house. That's a call we take for every project at the start or at the time of bidding itself.

Rajesh Agarwal So this cannot be extrapolated to other projects for future results?

Luv Chhabra Not necessary, I don't think this is the trend.

Rajesh Agarwal Have we again changed our depreciation policy because depreciation has also increased significantly from 70 crore from 93 crore?

Luv Chhabra The reason for that is in the last quarter there was a write-back, (if I can call it a write back) in depreciation for the reason that the life of the drilling rigs is much longer than what was originally being provided in the depreciation policy. Accordingly, on those two rigs, the depreciation rate was reduced, and there was a write back of depreciation.

Rajesh Agarwal The same assets remains with us or with the same kind of assumptions, if the depreciation has increased significantly that means we have added more to the fixed assets?

Raju Kaul Last year there has been an increase in assets to the extent of about Rs 600 crore. The total capital expenditure has been in that ballpark range, mainly project related equipments and then there has been a capitalization of our defense plant at Malanpur which is over 100 crore. The plant has been commissioned and its operational now.

Rajesh Agarwal So this Rs 93-94 crore should be, what we should see across the balance three quarters as well?

Luv Chhabra Unless there are some very significant increases in plant and equipment for construction, it will be in this range.

Rajesh Agarwal As per my understanding there was a very small amount of work left in, under Sirte basin around 11 crore. So if we do that project which will require less amount of time and effort then cash flow should be expected out from that project itself and that too fast?

Luv Chhabra The drilling project is an ongoing operation, we go from one spot to another spot to the third spot which the client identifies. Rigs are mobile, so we will drill in a particular spot till oil is discovered and then we go to the second spot and then we go to the next spot in an ongoing project.

Rajesh Agarwal So cash flows can start flowing from that project around say up to a quarter or so?

Luv Chhabra Actually cash flows have already started.

Rajesh Agarwal Any figure that you can crystallize on?

Luv Chhabra The cashflows have started in the 1st Quarter of this year. We will have steady state achieved in the next quarter and will give those numbers next quarter

Rajesh Agarwal The operating margins have expanded quite significantly? So any particular reason for the same and can we extrapolate this into future, I know you don't give future projections but explanations about this margin, any significant change in the business environment or just the projects are going through such a phase where we book such amount of margins?

Luv Chhabra Margins are based on a percentage of completion method so that should be an indicator of trend for what the future holds for the existing projects. Unless there are any surprises in any of our existing projects, that margin should hold.

Rajesh Agarwal A kind of change in the outstanding order book, we are moving out of infrastructure gradually, say infrastructure was supposed to be a low margin business and if we are getting more orders, like we got another order for Phase-2 of Qatar, so that kind of, should play positively on our margins going forward?

Luv Chhabra Directionally yes, but you must go back and see why the infrastructure proportion increased. It is primarily due to a significant amount of instability in the Middle East region which was created by a series of crises in various countries. Now with the oil prices seemingly in the $90-$100 range and indications are that range is likely to continue, we think, the orders are flowing back in the Middle East region.

Rajesh Agarwal So we are again gaining ground on our main forte which is oil & gas and pipelines so infrastructure will gradually reduce and those things will increase so our margins will directionally move up from 8% to 9% which we have experienced in the last one or two years?

Luv Chhabra I'm not saying that infrastructure is not our forte. Let me correct that impression, we have companies that do only infrastructure work; Sembawang is an excellent example of a company that has for the last two years delivered consistently robust returns in the infrastructure sector. We are just talking of the proportion of our infrastructure business business vis-à-vis the oil and gas.

Rajesh Agarwal As a proportion if it comes down will be a directionally positive to our overall margins. Can we have any kind of assumptions for tax expense, we work across different geographies so where we make profit and loss somewhere else but tax expenditure is very huge so if I could make any assumptions or estimation on what would be the tax expenditure for the full year, how would I do that and on what basis?

Atul Punj I think it is very difficult to predict because we are working across 21 geographies, every region has different taxation rates. With different revenues and profitability in each region how it will affect tax rate is difficult to predict.

Moderator Our next question is from Prashant Jain from HDFC Fund

Prashant Jain Mr. Punj can you elaborate on the capital expenditure last year In a time, when our balance sheet is already under so much of stresstypically we see contracting companies take equipments on hire so what has been the strategy here because the CAPEX seems to be disproportionately large to an outsider given the uncertain environment and the stretched balance sheet.What is the capital expenditure program for the current year and also if you'd like to comment the capital expenditures finally what the balance sheet shows is, in my opinion higher than what was probably guided on our expectations during the course of last year?

Atul Punj We have always maintained our CAPEX is linked directly with project requirements. Now when we picked this large project in Myanmar, there is no rental operation in Myanmar. If we look at the rental rates that we are able to get there, we can pay for the new equipment in about the nine months rental period.. We base our decisions on acquisitions simply on each project requirement. When you talked about disproportionate, there are different verticals in the company that have different needs of equipments. Pipelines for example are much more equipment intensive than the civil job, particularly a building job where we have a couple of tower cranes, we will have a couple of batching plants, we will have a couple of excavators and that's about it. Pipelines generally are much more equipment intensive and that's what is affecting our capex. We don't really plan any annual CAPEX; our CAPEX is directly linked with project wins. The philosophy as a company is that at the end of a project, if there is no need for the equipment, we will sell that equipment. That policy that has been put in to effect now and you will see that this number of the CAPEX or the equipment number will go up and down based on the project needs that we have in the company rather than equipment sitting idle, waiting for an imminent project.

Prashant Jain But in the current environment would it be a very prudent strategy where balance sheet is already stretched and we need to generate some free cash flows, this way you will keep on buying equipments for one project and then you are also taking a risk on the sale value of the equipment at the end of the project?

Atul Punj But it also depends on the availability of the particular equipment that we need for example we want to rent pipelayers which are required in pipeline construction and we can't find them and we cant rent an equipment it is not available. While we can find standard equipment like excavators, dozers, trucks and dumpers but the specialist equipment that we need in pipelines we cannot find anywhere unless of course we go to competitor and competitors are not going to rent it to us. Internationally if you look at the Middle East market, it is possible to rent equipment.. If you look at Africa it is not possible to rent equipment, so it is all conditioned on a specific project.

Luv Chhabra I just want to add on what Mr. Punj said, with regard to our philosophy of acquiring equipment for new projects and at the end of these projects, if there is no requirement for such equipment, we will dispose it off. When evaluating the project economics, the cost of acquiring the equipment and the disposal value is considered and only then a decision is taken whether we should acquire or rent. So this is really built into the project economics when we are evaluating a project.

Moderator The next question is from Pankaj Chopra from Shanti Asset Management

Pankaj Chopra My question is on margins you mentioned that 65% of your mix is largely non-rupee based so I would assume that a large part of the margin improvement had been helped by the currency. Would you like to comment on that please?

Raju Kaul This proportion has been there for quite a few years. It is not as if it has dramatically altered in favor of a foreign component vis-à-vis an Indian component, AND there is no significant change in that proportion.

Pankaj Chopra But the rupee depreciated significantly this quarter and the benefit of that essentially comes in, it is a translational benefit?

Luv Chhabra This quarter there hasn't been such a significant depreciation of rupee. The depreciation you are referring to happened over the period of previous 3 or 4 quarters. There has not been such a significant change in the rupee-dollar exchange rate and don't forget we don't just deal with the rupee-dollar exchange rate, there are multiple currencies in which we get our revenues. It is very hard to peg it to a particular rate in a particular geography.

Pankaj Chopra You mentioned earlier that you were intending to shift your borrowings into US dollar, the attempt was there and later on in the presentation in response to a question you mentioned that most of the projects that you do, you do your funding in the same currency so there is something which I missed in understanding. Our borrowings are completely based on the projects already and if that is the case then why are we trying to shift the borrowings?

Luv Chhabra To the extent it is possible, we borrow in that particular geography but there are some geographies where local borrowing is not possible example some geographies like Libya where local borrowing was not possible. For these markets if there is a rupee borrowing, the endeavor was to try to shift it to a currency which is closely linked to the currency in which we are earning revenues.

Pankaj Chopra So could you comment on the level of the difference between the borrowing and the project handling, you said 65% is non-rupee based so would it be fair to assume that maybe 50% is non-rupee borrowing, is that a fair assessment?

Luv Chhabra We don't have an exact percentage of this right now, I think Raju can give you details later.

Pankaj Chopra My question moves to the interest rate because if I look at the interest rates figures over the last so many quarters, it has just been moving up and of course we could get into the granularity but directionally I would assume that the interest rates in the places you borrow is not as high so if the interest rates if I calculate based on the numbers given it comes to a pretty high number so I just want to understand how this interest rate figure has interest cost percentage?

Atul Punj I think you can get the details with Raju, but basically the intent of the organization is that currently our global interest rate that we are paying is about 11.2%. We are attempting to drop this interest rate to the extent possible by shifting our loans, to drop this number because that goes straight to the bottom-line. We are conscious of the fact that (a) we have to bring down our debt which we have already started with and (b) is at the same time we are attempting to do whatever we need to do bring down the cost of money. We have a lot of borrowings in India which are term borrowings, which are attracting a higher rate of interest, and are not project linked. These are the borrowings that we are attempting to shift to a lower interest bearing currency. Now it's really how quickly the banks move that determines whether we are able to do it this quarter or next quarter but we are genuinely attempting to do whatever we need to do bring down our cost of money as well as the quantum of money that we have.

Pankaj Chopra The reason for asking this question is just to understand if Punj structurally disadvantaged because of this cost of capital while it operates in countries where competition is from players who have a much lower cost of capital despite having borrowing in the same place that which you operate?

Atul Punj No, we are not structurally at a disadvantage in the competitive space but yes in terms of our overall financial base it is a taking a toll on us which is why we are looking at this very aggressively. which is what can we do to bring down both these elements ie the total quantum as well as the price.

Pankaj Chopra If I compare your asset turnover over the last 6-7 years, there has been a huge amount of deterioration although they have been improving over the last couple of years but the number has fallen from 4 to much lower than 2 and the ROCE number is much lower. Could you comment on your ROCE targets by how do you see that improving. Is there a structural change in the business per se because of the environment and do you foresee the environment changing, if that has been the cause?

Atul Punj The ROCE numbers that we have on a consolidated basis Is that ROCE number has gone from 9.5 to 9 and our fixed asset turnover has gone from 4 to 3.5 over the last year so I don't see the significant drops that you mentioned. When you talk about lot of these numbers you got to remember that year and half ago we got hit with what I called as a perfect storm. With Libya suspension of work,.we had $2 billion worth of backlog at the time that suddenly got into the suspended animation; obviously our financial numbers are going to get short. Now we have been basically consolidating our own position and are now seeing the upturn trend that has started. I believe it will gather full steam towards the end of the year and we are clearly seeing the worst of it behind us now. What we ask is that when you look at all these ratios, please keep that at the back of your mind.

Moderator The next question is from Naveen Jain from JM Financial Institutional Securities

Naveen Jain On your mine in Indonesia, could you please tell us how much investment we have done in this particular project and further is to be done going forward?

Luv Chhabra The mine is currently under exploration so the infrastructure development is happening, overburden is being removed, the roads are being done, etc. The final license and permits are still pending and that is the current status. The current estimate is that by the 4th Quarter of this year coal exploitation will start and that's when coal revenues will start too. I don't have the exact number of total capital investment planned in this mine. If I recollect, it is in the region of about SG$15 or SG$18 million.

Naveen Jain And second question was on the Libyan orders about Rs 4,000 crore, which is there in the order book right now. Mr. Punj gave a good detail about which orders are these but if you could just quantify individually like how much is trading contract worth or how much is oil and gas contract worth and how much are those two infrastructure orders worth?

Luv Chhabra The drilling contract is an ongoing contract where we are paid a day rate by the Libyan oil company. So if the rig operates we are paid approximately $20,000 a day and if the rig is idle, we are paid at 60 or 70% of that day rate. The other two segments are the five infrastructure projects and the oil and gas projects. Raju can separately, off-line, give you details of order backlog for each contract. The total of value of these contracts are approximately Rs 4,000 crore.

Naveen Jain And if you can just share the figure as you mentioned that in other operation income ratio there is some Forex income, could you please give the amount?

Raju Kaul It is around Rs 40 crore.

Naveen Jain One last question was on your tax and in the last 3 to 4 years you probably have paid a lot of tax because of the way our business is structured ,individual subsidiary had paid taxes, I would assume that some of the subsidiaries that would have reported losses in the last 2-3 years - we will probably have a lot of accumulated losses in those subsidiaries so is there a possibility going forward in future let's say in the next year when the business turns around in that particular subsidiary also that we can have some substantial tax savings or something like that because of the accumulated losses or something I just wanted to understand that aspect?

Luv Chhabra It is possible - as an example(and we're not saying that is the case - but as an example if there is prior loss in Indonesia and the business is hugely profitable in the curent year we can offset that loss. It also depends on the tax laws in that particular country and whether they permit offset of previous losses.

Naveen Jain Is there any genuine possibility we are seeing right now or still not visible as of now?

Luv Chhabra It is hard to comment, if we have paid tax in Malaysia and we have a loss hypothetically in Indonesia, we can't offset the two.

Moderator The next question is from Pulkit Patni from Goldman Sachs

Pulkit Patni I just wanted a rough sense of what the capital expenditure numbers for FY13 is expected to be. If you could just give a ballpark number that would also be fine?

Luv Chhabra Every instanceof capital expenditure for plant and equipment for the project is based on the economics of that particular project and the availability of hired equipment and then a call is taken whether we should use hired equipments or whether we should buy equipment. At the end of the project if there is no requirement for the equipment, such equipments will be sold off. Our capex depends on the type of project wins, the segment -whether they are pipeline, whether they are EPC, whether they are infrastructure etc -and on the basis of this analysis the Board approves the capital expenditure for each and every project.

Moderator The next question is from Rahul Agarwal from VEC Investments.

Rahul Agarwal On your material cost, does it have any one-time or any inventory hold up cost in 1st Quarter because it seems that material to sales as a ratio or as a percentage has come down a bit compared to the previous quarter?

Luv Chhabra Firstly there isn't any write-off. It is difficult to establish a trend eg if we have a large EPC contract the quantum of material and equipment procured for the client can be very large vis-à-vis a pure construction contract or a pure pipeline contract where the client supplies the pipeline; thus proportions are very different in our different segments of business. I don't think you should use this as a trend to see whether this will increase or decrease in the next quarter. It will depend on each project and the cycle in which that particular project is.

Moderator I now hand the conference over to Mr. Punj for closing comments.

Atul Punj Thanks so much for being on the call. We're hoping this year is a good year coming forward now and we value your support and the time you spend on the company. Hope to be in touch again soon.

Moderator Thank you gentlemen of the management. On behalf of Punj Lloyd that concludes this conference call.