Punj Lloyd Limited

Q4 & FY15 Earnings Conference Call Transcript
May 25, 2015

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Punj Lloyd Limited Q4 & FY15 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Sood – Group Head, Investor Relations at Punj Lloyd Limited. Thank you and over to you sir.

Vinay Sood: Thank you. Good afternoon everyone and welcome to Q4 & FY15 earnings conference call. Joining us today on the call are members of our senior management team, Mr. J.P. Chalasani – Managing Director and Group CEO, Mr. P. N. Krishnan – Director Finance, Mr. Nidhi Narang – Group CFO, Mr. Dinesh Thairani – Group President-Legal and Company Secretary, Mr. Ravindra Kansal – Group President - Strategic Initiative, Mr. Atul Jain – CEO, Pipeline and Tankages, Mr. Aditya Vij – Group President - Defense and Aerospace.

I believe you have received the investor communication and results. Just to recap, the current order book stands at Rs.21,152 crore, consolidated revenue for Q4 is at Rs. 2,528 crore, for FY15 it is Rs.7,875 crore, consolidated EBITDA for Q4 is Rs. 588 crore and for FY15 it is Rs.251 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 this call is open to all invitees it may not be broadcasted or reproduced in any form or manner.

We can now take your questions please.

Moderator: The first question is from Prem Khurana of B&K Securities.

Prem Khurana: While going through the presentation, it seems we have booked some claims in this quarter as well, where last quarter too we had booked around $51 million of claims; if I adjust for these claims then we have received in this quarter Rs 450 crore, what kind of margins have been made from our core operations?

P. N. Krishnan: There is standalone EBITDA of Rs.794 crore. Out of this, contribution has come from the Medanta sale, so the balance is what that has come from operations. Rs.794 crore is the EBITDA that we are reporting; out of which the Medanta one-off transaction is Rs. 540 crore, which leaves the operating standalone EBITDA at Rs.254 crore. I am not aware on how you got Rs 450 crore.

Prem Khurana: The number is there in your presentation, which says we have received around Rs.745 crore of claims.

P N Krishnan: That is cash inflow from claims for the full year.

Prem Khurana: Yes, I mean in the last call you said you received around $20 million from one entity and then $25 million from your Doha International Airport. So this gives me around $45 million, which works out to be around Rs.300 crore odd. Now if I were to knock off this Rs.300 crore odd from the Rs.745 crore which is there in your presentation, it gives me a number of around Rs.450 crore odd.

P N Krishnan: The total claim that has been considered in Q4 is only about the magnitude of Rs.200 crore. The rest of it was spread over the balance three quarters.

Prem Khurana: What kind of margins would we have made on this Rs.200 crore?

J.P. Chalasani: These are claims for which expenses were incurred earlier and therefore there are no significant matching costs in this quarter.

Prem Khurana: Is it fair to assume that when you say core operations seems to have given us around Rs.250 crore odd of EBITDA and if I were to adjust this Rs.200 crore odd of number because of claims, I would get a number of around Rs.50 crore odd.

J.P. Chalasani: Yes, it is correct.

Prem Khurana: For the last two to three quarters we were suffering losses, is it fair to assume the fact that we have returned to black and that we would be posting positive numbers going forward or we have any cost overruns which are yet to be booked going forward at least in standalone entity and given the consolidated numbers later?

J.P. Chalasani: Yes, the guidance given at the end of Q1 was that we will sequentially see the improvement on QoQ basis. We are moving in the right direction and FY15 has been a decent year for us from the point of view of improving from where we were in Q1. We are also expecting an improvement in FY16.

Prem Khurana: If we knock off our standalone numbers from our consolidated numbers, it seems some of our subsidiaries are still struggling; they seem to have done only around Rs.670 crore of top line this quarter and suffered a loss of around Rs.250 crore. When do you see the change in situation for the international subsidiaries?

J.P. Chalasani: The new orders in the start of FY15 were not many since in FY14 we had booked few new orders. Whatever we booked in FY15 started in Q4 of the year. In FY15, we booked orders worth about Rs.7,600 crore, out of that about Rs.1600 crore got cancelled pertaining to Yemen project. So, effectively about Rs 6,000 crore orders were received. From that angle the top line would pick up this year. But more importantly, throughout the last one year, we have been concentrating on the bottom-line more than top line. This is how we plan to continue this year too by looking at improving the margins rather than simply concentrating on ways to increase top line. If you do not improve your operating efficiencies, increasing the top line would be like increasing your problems.

Prem Khurana: How do we currently see the order pipeline, this year again orders that we have bagged is lower than what we could execute.

J.P. Chalasani: Yes, from the order backlog of around Rs.21,100 crore, knock-off Rs.8,000 crore as we still do not know what is going to happen in Libya. Rs. 13,000 crore is the one which will give us the top line this year. The second is how much do you win in the Q1 & Q2, and if something is won in Q3 and Q4 that won't have significant contribution towards the top line. For Q1 we are hoping some good news on road projects. We also have some International projects which are expected in Q1. So Rs.13,000 crore, at which we have started this year is an effective order backlog and we will also receive some new contracts. Though our target to book is at least couple of billion dollars in this year, how much of that will add to the top line will depend upon what we have in Q1 and Q2. Therefore, this is the kind of directional improvement in the top line compared to FY15 as a base, which we can expect on the EPC side. Then there is defense and infrastructure development side of business, which can also see some improvement in topline.

Moderator: The next question is from the line from Aman Sonthalia from Suvridhi Capital.

Aman Sonthalia: What is the margin on current order book? Secondly, what are the margins you are expecting in new orders?

J.P. Chalasani: The margin depends on the competition that is expected to be there at the time of bidding for new orders. We may bid for projects that are at lower margins if we need to have continuity of work in a business vertical and to cover its fixed costs. But otherwise we would bid at our target margins only. Therefore, it is difficult to forecast margins upfront. It is reasonable to expect 8 to 10% at the EBITDA level. This is the minimum on the new projects coming in. We are also trying to bring in operational efficiencies whether it is in terms of execution, supply or contracts management.

Aman Sonthalia: What is the current debt and how much debt are you expecting by the end of this financial year 2016 on a consolidated level and on a standalone level?

J.P. Chalasani: Our main aim is to keep reducing debt and that will be done through non-core asset monetization and claims. These are the two sources through which we will reduce debt. In FY15, the term loan reduced from Rs.1,460 crore to Rs.1,050 crore. The working capital keeps changing because it is related to the business. In my opinion, reduction in working capital shows that your operations are actually coming down. The working capital loan continues to depend on the projects. The new projects added this year, like Rapid and Kuwait projects have increased working capital a bit. Our aim would be to reduce the long-term loans and our financing cost. We are also working on the debt realignment, which shall help to reduce interest cost as well as give us more power in terms of fund-based and non-fund based limits.

P. N. Krishnan: The challenge that most EPC companies have been facing is the manner of financing of working capital for the various projects. In our case we have a multiple banking arrangement and also have project specific working capital in a significant way compared to general purpose working capital. These are creating concerns because of the unutilized limit on a specific project from the banking system but are still considered as an exposure of the bank to the Company. On the other side, when you have to go for new project for getting performance bank guarantees and advance bank guarantees, etc., it will be a challenge, therefore the time taken is more; given the fact that banks are having their own stressed levels in terms of taking on additional exposure to the infrastructure sector. EPC considered under the bracket of infrastructure sector is partially disadvantaged as it has not benefited from infrastructure benefits available today. So we have now moved away from the multiple banking arrangements to consortium financing and moved away from project specific to general working capital facilities, which have freed up non-funded facility of Rs.1,300 crore. This will be made available for future contracts. In addition, there has been an additional sanction of about another Rs.1,100 crore of non-funded facilities. On the funded side, we have moved some of our facilities under corporate loan which is giving us an augmentation of working capital and which also enables the banks to provide additional working capital of about Rs.800 crore. This is the plan in terms of fueling the future business opportunities of the company.

J.P. Chalasani: Also expect this to give us some efficiency in terms of interest cost.

P. N. Krishnan: While on one hand it corrects asset liability mismatch that has been there in terms of some of our claims which have been expected to be received over a period of time it is matched with our corporate loan. This is having a similar maturity pattern of the time of realization of those claims. The second part is in terms of providing additional facilities to immediately debottleneck the present liquidity issue that the company is increasing and also provide for the future growth.

Aman Sonthalia: How much claim will be recoverable?

J.P. Chalasani: We stand by the same guidance given earlier, the claims on the table are Rs.10,000 crore, but on a conservative basis realizable is about Rs.3,000 crore of which we already got about Rs.750 crore. The balance is about Rs.2,250 crore, which we are targeting and this is inclusive of ONGC Heera.

Aman Sonthalia: What is the potential of defense orders, when will it begin flowing in and what is the expected order from defense sector?

Aditya Vij: In defense, the current Government is active in releasing the orders that have been bottlenecked for several years. Initially, it has been more of government-to-government contracts. We have responded to over dozen RFIs. Secondly, we have been actively participating in RFPs and one of our products has passed the trials. The product is under final evaluation stage with only one competitor in the race. We are reasonably confident of our solution. The defense manufacturing plant continues to do well. It has already ramped up to three shifts. We have international customers and also are suppliers of components to Hindustan Aeronautics Limited, who have given us more drawings for additional products. We expect to scale up plant revenue significantly this year. So this is really where defense stands. It is a long-term play and initial signs are fairly encouraging.

Moderator: The next question is from Farhana Lambe of NVS Brokrage.

Farhana Lambe: Regarding Rs.16,800 crore contract to make anti-aircraft guns, when will the order be finalized and what is the probability of Punj Lloyd getting the order or what kind of a split is expected between Punj Lloyd and Bharat Forge? Secondly, what are the time frames for delivery of this order and what kind of EBIT margin is expected from this order?

Aditya Vij: The order is at a very early stage of an RFP. We are one of the contenders along with Bharat Forge and several others in addition. The most encouraging thing about defense business is that there is a very clear recognition from both the Defense Ministry and Indian forces towards Punj Lloyd as a very important contender for future equipment, both from an integration point of view and for component manufacturing to support any program. The way these programs work, from an RFP stage the actual orders are expected within two to three years if things go fast.. The specific project mentioned has been covered a lot by the press and we are one of the bidders. Interestingly, the technical evaluation committee is still involved as an early stage of evaluation process. Regardless of the results, we have a state-of-the-art manufacturing plant and are confident of getting certain work share. We also have excellent relationships with international and domestic defense suppliers to be able to cater to any specific component needs. We do believe that we have a fair chance simply because we have a solution to offer. On the other hand I know the path from an initial RFP to an order can be three years if it is fast-tracked, otherwise it can be five to six years.

Farhana Lambe: What is the delivery period once the order is received?

Aditya Vij: Delivery periods vary between five and seven years depending on the size of the project after the order is received.

Farhana Lambe: Are any other orders expected from the Indian Navy or Air Force under the 'Make in India' initiative?

Aditya Vij: Under 'Make in India', we are fairly active on the factory front to scale up production. We have responded to over a dozen RFIs in the last 18 months since the end of the last government and the beginning of the current regime, but it is all pipeline work.

Farhana Lambe: What kind of order inflows are expected in FY16 and FY17?

J.P. Chalasani: The domestic infrastructure is likely to increase by the road projects which are out in the market amounting to at least Rs.10,000 crore, the bids for which would come out shortly. Outside India, the pipelines and tankages segment is very active. That's one area where we are still seeing traction in terms of getting the large orders. Our expectation is to book about $ 2 billion worth of orders this year.

Moderator: The next question is from the line of Saket Kapoor of Kapoor & Co

Saket Kapoor: Investors are not worried about orders but the interest portion that we have to service, maybe it is due to legacy orders or pending orders if we can term them, we are seeing Rs.1,100 crore as interest, how sanguine is the situation going forward and how well are we positioned to continue to service our debt.

J.P. Chalasani: The number that you are talking about is not interest alone but also includes significant amount of bank guarantees and LCs commissions. The more projects we win, the more bank guarantees and LCs are required. That said, our target is also to reduce the overall debt so that the interest cost comes down. Monetisation of Medanta and also realisation of some claims this year has helped in reducing debt. Our term loan has gone down from about Rs.1,460 crore to Rs.1,050 crore. We will continue our efforts as we move ahead to reduce two things, one is reduce the debt, second is to optimize our interest cost. Mr. Krishnan explained the debt realignment plan currently being worked out with the banks which will give us increased fire power in terms of fund based and non-fund based and will enable us to reduce our interest cost at least by a 100 basis points.

Therefore, it is a multi-pronged approach; we need to reduce debt and reduce the cost of debt. You've seen the progress last year and you will see more going forward.

Saket Kapoor: On May 30th, we are conducting an EGM wherein we are going to increase the limit of Rs. 3,000 crore, could you explain the reasons or is it all about the realignment of debt which you were talking about?

J.P. Chalasani: It is more of an enabling resolution and part of it will be used for this particular matter also.

P. N. Krishnan: It is more of a non-funded facility which is coming into play and as a part of that it is linked to the future business opportunities that we are expecting to come around.

Saket Kapoor: What does non-funded activity means?

J.P. Chalasani: For an EPC Company, we would need two types of funding, one is a fund based working capital and the second one is non-fund based. Basically, whenever you need to get bank guarantees for contracts and also open LCs for supplies non-funded limits come into play. Both are equally important for an EPC company.

Non-fund based plays a significant role because if you do not have a bank guarantee obviously you cannot bid and neither can you get into contracts because performance bank guarantees and advance bank guarantees are required. Secondly, as we are an EPC Company and not plain contractors, there is significant amount of letters of credit (LC) required to be opened for supplies. Most EPC companies in this country are stuck in expanding business purely because they do not have fund based and non-fund based facilities from the banks and you know many of them have gone for CDR. We are not going through that road and that's why we are saying it's okay, we are reducing the debt with increase of fire power which as a construction Company is a significant achievement for us.

Moderator: The next question is from Subhankar Ojha of SKS Capital.

Subhankar Ojha: Can you please provide the consolidated and the standalone borrowing number?

P. N. Krishnan: Debt for EPC activities on a consolidated basis is Rs.6,258 crore and on a standalone is Rs.5,200 crore, it includes term loan and working capital.

J.P. Chalasani: During the year another significant achievement is that we added a 21 MW solar capacity and then we started another project of another 21 MW. So by end of this year FY16 will become 50 MW solar Company. So, that debt which was serviced by the revenue coming for those specific projects is also included in this is about Rs.883 crore. So we need to knock that off because service is based on the revenues of that project like any other infrastructure project.

Moderator: The next question is a follow-up from Saket Kapoor of Kapoor & Co.

Saket Kapoor: What is our current solar capacity and is the plant owned by us or has it been contracted?

J.P. Chalasani: This is part of Punj Lloyd Infrastructure Limited (PLIL) where we also get into other BOOT projects. We own the projects there. Earlier, we had 5 MW, now we added 21 MW further in this year. We are now in the process of constructing another 21 MW, which will get commissioned in financial year FY16. We will roughly take about 50 MW solar project and we already have Khagaria Purnea Road project. Therefore that is one area which we will continue to look to create assets for us on the balance sheet.

Saket Kapoor: Will that be an annuity project or will we be selling solar power to the grids in the open market?

J.P. Chalasani: We have tied up a PPA. Therefore we do not need to wait for the open market.

Saket Kapoor: The road project where a lot has been talked about coming up with Rs.3 lakh crores and making 30 kilometers per day. How well is our Company positioned to take benefit of it, because in the past we have seen that experience of building roads has not gone well with the construction companies. What are you looking for in the road projects that are definitely going to come up as Mr. Gadkari has been announcing.

J.P. Chalasani: As far as we are concerned, there are two categories of projects in Road Sector – one when we take a project on BOOT basis where we own the asset, like what we did for Khagaria Purnea. We are very careful to choose such projects, where we put our own investment. These are the kind of projects where the other construction companies have burnt their hands.

We primarily concentrate on EPC portion of it where we have normal construction related risk only. Both the NHAI and MORTH come up with two types of projects, one is the pure EPC project where the Government becomes the owner of those projects and second one, where they give it to people for tolling. So we bid for EPC projects of the Government directly and we also bid to the developers who actually win the BOOT business as a contractor. So our risk would remain as a construction contractor only. On top of it, we keep analyzing if there are one or two odd projects which we think will be worth putting our investment, then we shall participate into BOOT. We have done only one such project till now which is Khagaria-Purnea. This we completed ahead of time and in fact we have won a bonus for that project. We are very careful in choosing the BOOT project, but with EPC projects there is lesser risk. Thus, we are hoping that there will be significant potential in road contracts this year for us.

Saket Kapoor: Are the issues with the UK Company over; The the litigation part which we are handling for over few years?

Dinesh Thairani: Yes, we had challenged that order in Indian courts. The party has filed their reply and we have filed a rejoinder to that. The next date of hearing on that matter is on 29th October, 2015.

Saket Kapoor: What amount of our bank guarantees have been encashed by them?

J.P. Chalasani: No, that is different, I think you got confused. The one that you are talking about is not a UK Company, it is a Thailand Company. There is a Company called PTT which has encashed our bank guarantees for our pipeline project. There we have gone to the court; they competed with our courts here. After a year they have decided on the jurisdiction and so now we are filing all the papers. Hopefully, we will have a resolution for that this year.

Saket Kapoor: Mr. Chalasani, now you are at the helm at Punj Lloyd after being with Reliance Power, how well are the structural changes being implemented in the Group as per your way of working that we could see better Punj Lloyd emerging after this? What are the catastrophical moves that has happened over the last four-five years in this construction business or things that have gone wrong with the Company? How well are we now having the grip as per your understanding of the Company? How are you gauging the situation here and how well are you positioned?

J.P. Chalasani: I have spent about year and half at Punj Lloyd and my tenure at Reliance was for 18 years.

The reason for me to join this Company is because this Company fundamentally is very strong in terms of brand. It has a global footprint, and it has a significant name outside. Whenever I meet any of the multinational clients like a Shell or Petronas or others they have heard about Punj Lloyd. That is what I heard when I was outside the Company. That is a significant strength we have. What we have done was not wrong inside the Company, but after I joined we got together as a Management Team and we focused ourselves on the current situation of external environment becoming tougher. How do we reorganize ourselves and leapfrog into improving our efficiencies, that's when we made some structural changes. We have made changes in terms of the way we operate; instead of geographical basis we now have got into business verticals. We have also got into independent procurement function, which is bringing the efficiency to the table. So we made lots of changes and improved our systems and process. FY15 is what we concentrated on bringing in the internal efficiencies while externally the things were still picking up. Today, we have completely streamlined the Company. We have a good Management comprising both of people who have been with this Company for three decades at senior levels heading some of the business verticals and we have fresh talent coming from outside. We are in a very good position for taking opportunities forward.

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

Vinay Sood: Thank you everyone for joining us on this call. We now conclude the conference call.

J.P. Chalasani: Thank you.

Moderator: Thank you. On behalf of Punj Lloyd Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.