Punj Lloyd Limited

Q1 FY16 Earnings Conference Call
August 17, 2015

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Moderator Good Day, Ladies and Gentlemen and Welcome to Q1 FY16 Earnings Conference Call for Punj Lloyd Limited. As a reminder, all participant lines will be in the 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 – from Punj Lloyd. Thank you and over to you, sir.

Vinay Sood Thank you. Good afternoon everyone and welcome Q1 FY16 Earnings Conference Call. Let me introduce the Members of the Management Team today on the call, Mr. J. P. Chalasani – Managing Director and Group Chief Executive Officer; Mr. P. N. Krishnan – Director Finance; Mr. Nidhi Narang – Group Chief Financial Officer; Mr. Dinesh Thairani – Group President, Legal and Company Secretary; Mr. Aditya Vij – Group Advisor, Defense and Aerospace; Mr. Shantanu Karkun – President and CEO B&I; Mr. C K Thakur – President & CEO, Power; Mr. Amit Gupta – President and CEO, Process; Mr. Atul Jain – President & CEO, Pipeline and Tankages, Mr. Ravindra Kansal – Group President, Strategic Initiatives.

I believe you have received the investor communication and results. Just to recap the numbers, the current order book stands at Rs. 19,884 crore, consolidated revenue for Q1 is at Rs. 1,070 crore and EBITDA at Rs. (301) 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. I will now request Mr. Chalasani to make the opening remarks and then we can take your Questions.

J. P. Chalasani Good afternoon to everyone. I would like to give you a broad outline on how the quarter has been and which can lay the canvas for the Q&A. If you look at the top-line, it is around Rs. 685 crore on standalone basis. There are two major reasons why the top-line has been low compared to target; one reason is that about Rs. 300 crore could not be booked because there has been delay in off-shore projects owing to client related issues. In off-shore and other businesses, now we are making an effort that if there is an issue which has a commercial implication, we want it to be settled before we proceed further, after having seen our experience in ONGC Heera project and some other places. It takes some time to get the issues resolved. Most of them have been resolved now except one or two, which are under discussion. But in the process of tackling these issues the projects slowed down and the revenue what we expected in this quarter has moved to the subsequent quarter.

The other major reason for us to clock lower revenues than what we anticipated was extremely tight liquidity position which we faced in this quarter. In fact, we hardly had any working capital coming into the operations at all during this quarter, that is mainly because the corrective action plan (CAP) through the Joint Lender Forum (JLF) route initiated by the banks sometime in September 2014 got concluded only in late June 2015, which is now of course operational and gradually we are getting the increase in working capital both fund based and non-fund based. But for the entire Q1 FY16 quarter we did not have sufficient working capital. It had an impact on number of ongoing projects. These are the two main reasons why the top-line has come down otherwise if these issues were not there I think we would have clocked the same or little more than what we did in Q4 FY15.

On the EBITDA side, there were two reasons for a negative amount. One is that we had a foreign exchange loss due to Libyan Dinar and Singapore Dollar of about Rs 150 crore and the second reason for hit in EBITDA was that as we had explained earlier we are now in the process of settling of outstanding claims in an aggressive manner because cash is now more important for us than tracking the issue for a year or two more and then settling it. So we have been ready to even compromise to some extent in terms of the settlement amounts so that we get the cash in today. In fact in this quarter we had more than Rs. 300 crore of claims coming in to the company but in the process about Rs. 100 crore is what we would have let go in order to not drag the issues and get the cash in today. One other thing to look at is finance cost which has gone up compared to last quarter and is purely because we had the bank guarantee charges of around Rs. 30 crore for Libyan projects and also we had expenses for CAP of Rs. 15 crore, so that is about Rs. 45 crore, if we take that out our financing cost remains more or less same as last quarter.

We believe it is going to be different gradually from Q2 to Q4, because we see improvement happening for three main reasons; one is that the offshore issues are now practically settled and second most importantly Corrective Action Plan (CAP) has now been implemented and we have the incremental fund based on non-fund based limits available. Third is the order pipeline which looks quite encouraging for us. As we speak, we have about Rs. 3,700 crore worth of orders that are either being formally given in letter of awards or bids have been opened and we have been placed favorably for those contracts. If you compare this with the last year where we had Rs. 6,000 crore of orders booked, of which more than 50% we have already achieved in the first quarter. And if you look at the second quarter as we speak today, about Rs. 20,000 crore worth of bid results are being awaited. Another Rs. 27,000 crore are short listed projects in which we want to participate where the bids are likely to be submitted in the next 45 days. So that means if we take this Rs. 20,000 crore of bids we have put in and another Rs. 27,000 crore bids likely to go, it means we will get results for about Rs. 45,000 crore in Q2, so even if we take a 20% hit ratio there, we are reasonably confident that we will cross Rs. 10,000 crore order book in the first six months. We will wait and see how the second six months pan out. So with this new order pipeline adding to the revenues gradually we are reasonably confident that whatever we missed out in Q1 we will be able to pick up, not everything in Q2, but gradually. This is broadly the outline of what happened in the first quarter and what is likely to happen going forward.

Now, we are open for Q&A.

Moderator	Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sumit Kishore from J.P. Morgan. Please go ahead.
Sumit Kishore	My first question is if you could give us a sense of what the receivables outstanding for over six months are as of June quarter end?
J. P. Chalasani	Out of the total receivables of Rs. 2,200 crore, more than six month old are about Rs. 1,200 crore. This includes retention money which is approximately Rs. 200 crore.
Sumit Kishore	Also, you mentioned that about Rs. 37 billion worth of jobs you are likely to win, so which sectors are these orders coming from mainly and could you also talk about the order pipeline in overseas, Middle East and India across power, process, and infrastructure? And with the decline in oil prices how is the outlook now as compared to Q1 last year? You used to give a breakup of the order backlog geography wise earlier in your presentation which is missing now, so could you give us a sense of that.
J. P. Chalasani	The existing order backlog is available in the presentation. Let me speak more on what is in the pipeline. Till now projects where LOI has been issued to us or bids have been opened and we are favorably positioned are about Rs. 3,700 crore. In this, predominantly, it is between the power and the process vertical, both put together is roughly about Rs. 2,700 crore, almost 50-50 between the two, balance Rs. 1,000 crore is roughly divided Rs. 500 crore each in B&I and pipeline and tankages. In fact, we have already got LOI for two projects, one is a road project in Bihar for NH28 of Rs 542 crore and second is indoor LNG tanks for Rs 477 crore. The total comes to Rs 1,019 crore. But as regards process and power, the bids have been opened and we are favorably positioned. We expect the LOIs to be issued soon. On top of it, I said that Rs. 20,000 crore worth bids have been submitted and Rs. 27,000 crore are likely to be submitted in the next 45 days. Thus, if you look at the first six months it is predominantly in the order of magnitude wise B&I followed by pipeline and tankages, then the power and then the process. So in the first six months this is how it is panning out but in the second half we expect that it is going to be more in B&I and power and less in pipeline and tankages or process. In terms of pipeline and tankages, the orders which we have won right now is in India, that is LNG tank in Ennore but the bids which are expected are outside India. Projects in Process and Power where we are favorably positioned are predominantly in India but moving ahead it is going to be more outside India. That is the broad flavor of the order book.
Sumit Kishore	Just one more question, why no consolidated result table in your presentation, I mean why are you giving standalone numbers in your presentation?
J. P. Chalasani	We have told the stock exchanges that we will give the standalone numbers each quarter and at the end of the year we will give consolidated numbers. This is what we have been following for few Quarters now. However, we have no problem in sharing those numbers and in fact; we have been sharing the consolidated numbers regularly on the call.
Moderator	Thank you. Our next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.
Aman Sonthalia	What is the expected interest for Q1 FY16 and loan at the end of Q1 FY16?

J. P. Chalasani Our financing cost, which includes things like bank guarantee charges and LC commissions along with Interest, was about Rs. 1,000 crore in FY15 and we expect FY16 to be slightly less compared to last year for two reasons. One is that we expect some debt to come down and second is with CAP now been implemented we have favorable interest rate which will bring down our cost.

Aman Sonthalia So what will be the total loan at the end of the year?

J. P. Chalasani As of now, it is about Rs. 6,800 crore. If our claims are realised the way we are expecting, debt will come down. I do not want to put a number but our target is to bring it down through realised claims.

Aman Sonthalia And sir what type of quality of orders we are getting, I am asking about the margins. Previously the margins were very low so right now what type of order we are getting?

J. P. Chalasani The margins vary according to the segment we are working on. It is broadly between 8% to 12%.

Aman Sonthalia And what is the opportunity you are seeing in the defense sector, how big is the opportunity for the company?

Aditya Vij On defense, we have been shortlisted for upgrade of the air defense gun. Our plant continues to ramp up. I think our focus is going to continue to be on major programs. Air defense is another large bid coming up later this year where we will be bidding directly as Punj Lloyd. We are partnering with other contenders on the large FIPB developmental program that the government recently announced. We have been shortlisted as part of the expression of interest. So obviously defense will substantially ramp up over the next three years, but I do want to caution here that in terms of defense procurement process, although the government is trying very hard to cut down the time lines they still tend to be very high, but certainly we expect to see higher revenues from the defense sector building over the next two years.

Aman Sonthalia And sir since the turnover in this quarter has slumped a lot, so how much turnover you expect during FY 2016? And since you have already bid for a lot of orders and we have an outstanding order backlog of around Rs. 20,000 crore so how much more topline can we expect in FY 2017.

J. P. Chalasani Last time we gave guidance of Rs 8,000 crore standalone and Rs 10,000 crore at the consol level for FY16, our current expectation is that though we missed the Q1 target we will work towards maintaining this number gradually in the subsequent quarters. And as far as FY17 is concerned, we will be able to talk about it after a couple of Quarters, depending upon what type of orders we get. If the orders are more in B&I then revenue will ramp up in a different way. If the orders are more in power and/or pipeline and tankages, which are more of an EPC play, we will have a different ramp up for the revenues. So therefore, I think we need to wait for three to six months more before we really say what FY17 would look like.

Aman Sonthalia So this currency loss you have shown in the balance sheet, this is due to outstanding receivables or something else?

J. P. Chalasani This is mostly because of receivables.

Moderator Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor I missed the consolidated numbers, if you could come again on them sir, what were the consolidated revenue numbers and PAT also.

J. P. Chalasani Consolidated revenue number is Rs. 1070 crore and EBITDA is Rs. (301) crore.

Saket Kapoor And standalone EBITDA was how much sir?

J. P. Chalasani Rs. (298) crore.

Saket Kapoor Sir what is the update on the ONGC project, are the negotiations long drawn?

J. P. Chalasani Yes, as we know it is in arbitration now, we had second hearing in June where they have admitted our revised amended claim. Then they gave time for ONGC to respond on our amended claim and then our response. So next hearing is on December 11th where they will also fix a schedule for hearing and completing it. So we are trying, along with ONGC to see whether we can have an accelerated hearing.

Saket Kapoor Sir how much our claim has reduced?

J. P. Chalasani We have increased it.

Saket Kapoor What were our earlier claims and how much have we increased, if you can give some figure on that.

J. P. Chalasani The current claim is around Rs. 1,900 crore, earlier it was about Rs. 1,300 crore.

Saket Kapoor So 50% increase?

J. P. Chalasani Yes.

Saket Kapoor Mainly the interest component you have added on to it?

J. P. Chalasani Yes, predominantly interest.

Saket Kapoor And in fact sir whatever talks you are having over a longer period of time, what is achievable sir, what should be in an optimistic point of view achievable if the contours of the arbitrations are what they are being projected?

J. P. Chalasani The first committee which spent more than a year and had plenty of hearings went through it in a very detailed way and gave us an order for about Rs. 1,100 crore. So that is the most well-argued, well-reasoned out report of an expert committee. We always keep our aim around that, but I do not think anybody can put an exact number on this and it only works as guidance.

Moderator Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor Sir where in the basis of our order booking or projections are we wrong that every now and then we are hit by this phenomenon of getting hit due to erroneous orders if I could say so?

J. P. Chalasani I did not get you, what does erroneous order means?

Saket Kapoor Sir I am trying to understand why is it that so often we are getting hit by the extra ordinary expenses on account of order sir, where are we going wrong sir?

J. P. Chalasani I do not think currency fluctuation can be called getting hit. Every single company gets hit on this and that is not erroneous because nobody can forecast that. The issue is that when at other places you are weak then it becomes a bigger hit. One reason why we have seen lower revenue is due to our revised approach of telling the clients that unless they settle the issues upfront we will not move ahead with the contracts. This approach hits you currently because revenues are getting postponed but on a long-term basis it will help us by avoiding super long drawn processes like Heera project arbitration. Second reason was that we just did not have any financial support coming from outside the operations in Q1. That's because the Corrective Action Plan took longer than expected. It started in September 14 and got concluded only by end of June 2015. So effectively, we hardly had any working capital support coming in and thus existing set of projects got affected. We could not anticipate this because it was expected to have been completed initially by December 2014, then by end of March 2015 but finally it dragged down till end of June 2015 and the funds under the CAP started getting released only in the last couple of weeks.

Saket Kapoor And sir what is now our working capital, how much of working capital we have arranged sir?

J. P. Chalasani Incremental working capital what we got is fund based of about Rs 1,000 crore and non-fund based of about Rs 2,600 crore.

Saket Kapoor So sir that will make us able to participate in the ongoing projects?

J. P. Chalasani Yes, in fact we are already doing that today.

Saket Kapoor And sir in your interview also to CNBC you spoke something for that Rs 300 crore settled, Rs 100 crore lost, could you elaborate sir, I did not get you on television when you were responding to it that Rs 300 crore was there, we settled it, we lost Rs. 100 crore but still we got Rs 300 crore of cash.

J. P. Chalasani One of our targeted areas for this year is cash settlement in order to bring in more cash into the company so that we can meet the operational shortfall and can reduce debt thereby bringing the interest cost down. In the current situation the time of availability of cash is very important for us. So instead of trying to get in some additional money which will require us to keep fighting for much more time, we said that we will sit across the table to finalise. So in the process sometimes we may have to take some hit. For example recently we settled Bina project claim for Rs. 34 crore against Rs. 60 crore.

Saket Kapoor Which project sir?

J. P. Chalasani Bina project, it is a refinery project. I am seeing this as an approach that we would be taking going forward too, when the only alternative is if we do not settle, it goes for arbitration. For the company cash received today is much more important than earning a little extra cash two years down the line.

Saket Kapoor And sir going forward also when you are going to bid for more projects, we do not think the debt can come down significantly going forward, even some non-core assets were in the pipeline, about the barges and all sir, have you concluded something or are we in the process of doing?

J. P. Chalasani We are out in the market for barges but unfortunately we hit the low level of market because what is happening to the level of crude prices. So therefore we are finding it difficult to dispose off and we really do not want to get into distress sale sort of a situation.

Saket Kapoor Sir what were we supposed to realize from the barge sale?

J. P. Chalasani We had negotiated a deal at that point in time for $67.5 million.

Saket Kapoor That is a big sum of money sir.

J. P. Chalasani Yes.

Saket Kapoor And as of now we are not getting, meaning due to poor market conditions. Can we not deploy those assets

J. P. Chalasani We are trying that too. We are trying for both options i.e. charting of these barges or selling. So we are in the market right now and our central procurement team has reached out to some 168 parties throughout the world.

Saket Kapoor Where are these assets sir, the barges?

J. P. Chalasani Two of the large barges are in the Middle East.

Saket Kapoor The pipeline stretch which the Government was trying to bring for making grid for the gas distribution and all, sir nothing on the ground is moving I think on that front.

J. P. Chalasani The short stretches we are not really concentrating on because if it is a short stretch there are too many players who become eligible for that and the competition is so tight people are willing to work on much lower margins which we are not willing to do. We are looking at reasonable size projects. For example, while there are plenty of road projects, we are only participating in the projects which are Rs. 500 crore plus. So we want to participate in the segment where we have companies of similar size like us. You really cannot compete with the smaller companies because their costs are different, their margins and expectations are different. Whereas Reliance for example is laying some pipeline and though it is a shorter stretch we are participating there because of our ongoing relationship with them.

Saket Kapoor I hope sir things do improve on all levels because investor interest is being lost due to various issues involved, either debt or these regulatory norms or whatever currency issues, something or the other is coming up on a quarter-on-quarter basis. So from an investor perspective you are losing your shine, already you have lost most of it but whatever is left is also getting deteriorated. From the investor point of view I am putting the picture forward to you, and I know the environment also is very disturbed and very competitive that people in your business have suffered a lot. So let's hope that things do improve at all levels. And I do not know if you will find any interest as of now for equity infusion?

J. P. Chalasani We have not thought about this at this stage and thanks for your best wishes but I can only tell you that the efforts are being put in 100% in every single area.

Moderator Thank you. Our next question is from the line of Rahul Goenka from Noasis Ventures. Please go ahead.

Rahul Goenka Debt has been increasing gradually and the question is very simple that will you be able to service the debt?

J. P. Chalasani There are two things. One is that interest cost is expected to come down on account of corrective action plan which has now been implemented. Number two is that looking at the current outlook for the current financial year we do not see a challenge as regards the debt service.

At the end of the day, I think we are all clear in our minds sitting across the table that what is required for the company as a single point agenda is to reduce debt. Because whether we can service or not service is a secondary question, but it seems like a situation now that we are working hard for the banks. So there is no second opinion that debt has to be reduced. That is why we are putting in renewed efforts on claims realization. You would recall that last year we did non-core sale of Medanta stake and some others. We are continuing efforts on barges. All this is to see that we reduce debt.

Rahul Goenka So by the end of the year you see the debt coming down?

J. P. Chalasani That's the hope. By how much depends on how much claims can be realized.

Moderator Thank you.

J. P. Chalasani If there are no questions then we can conclude. And if there are any outstanding questions left you can always contact Vinay and he will provide the necessary details. Thank you very much.

Moderator Thank you very much Members 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 line.