Punj Lloyd Limited
Q3 9M FY10 Earnings Conference Call

Moderator: Ladies and gentleman, good afternoon and welcome to the Punj Lloyd Limited's Q3 and 9M FY10 Earnings Conference call. As a reminder, all participants' 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 any assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson. Thank you and over to you Mr. Desa.

Gavin Desa: Thank you Rochelle. Welcome everybody to Punj Lloyd Limited's Q3 and 9M FY10 Earnings Call. We have with us Mr. Luv Chhabra, Director of Corporate Affairs, Mr. Atul Pasricha, Group CFO, Mr. Ravi Keswani, F&A President of the Company. Also joining us from Singapore is Mr. Pawan Kumar Gupta, CEO – Energy for India and SEA. We will begin this conference with opening remarks from Mr. Chhabra after which we will have an interactive Q&A session. Before we begin, I would like to mention that some statements made during this call maybe forward looking in nature and a disclaimer to this effect has been sent to you in the conference call invite. May I now invite Mr. Chhabra to address the conference?

Luv Chhabra: Ladies and gentleman, good afternoon and welcome to this earnings conference call. The results have been with you now for a few days and without much further ado, I suggest let us break into the question and answer session immediately. We will take questions now.

Moderator: Our first question is from the line of Somesh Agarwal of Macquarie.

Inderjeet: Was there any write-off in the current quarter numbers? If any, then what was the quantum of that and which project was it related to?

Ravi Keswani: We have already intimated that there is a write-off in case of Simon Carves. In it, the majority of the losses are because of the write-off for the Ensus Project. The total loss booked for Simon Carves in quarter three in rupee terms is about Rs 165 crore.

Inderjeet: After booking this loss, what is the kind of outlook in terms of Simon-Carves and Sembawang put together? What is their order backlog? How much do you think you can still classify as legacy orders or problematic orders and when do we expect to put this entire chapter behind us?

Ravi Keswani: Let us take Sembawang and Simon Carves separately. For Simon Carves, the problematic order, which was the Ensus project, is already commissioned but our presence is still there at the site because it is a chemical process and takes time for the product to come out. We hope that in another two weeks time we will be moving out of the project site.

Luv Chhabra: It will be a gradual movement. The decommissioning will take some period of time but certainly by the end of this quarter, it will be completely over.

Inderjeet: What is the order backlog in Simon Carves at this point of time?

Ravi Keswani: Way forward, Simon Carves would not be doing anything on EPC basis. Currently they have two EPC orders in their backlog, which are being executed by the Punj Lloyd teams and not by Simon Carves team. There is one petrochemical plant which they are doing for PTT Thailand in Thailand that is likely to be completed either by March or April this year. This project is handled by Punj Lloyd team in Southeast Asia. The second project which they are handling is aluminium fluoride project in Abu Dhabi. It is a small project with a value of about 28 million sterling pounds and is again handled by Punj Lloyd Energy team based out of Abu Dhabi. Although these two projects are within the order backlog of Simon Carves, they are not being executed by staff of Simon Carves. Simon Carves will be concentrating and working as an engineering company focusing on two segments - engineering for biofuels and nuclear. It would not be picking up any jobs on EPC basis. If there is any opportunity in the segments where they operate, then those EPC jobs will be picked up by Punj Lloyd teams.

Inderjeet: What is the order backlog of Sembawang and are there any issues in that order book now.

Ravi Keswani: Sembawang has order backlog of approximately USD 1.7 billion and is on track. There are no issues as far as order backlog of Sembawang is concerned. A significant portion of that order backlog is the Libyan orders.

Inderjeet: Can you give us a reason for the lukewarm growth of revenue over the last two quarters.

Luv Chhabra: If you see the order backlog, there are two or three orders for Sembawang and some orders for Punj Lloyd, being received in Libya, both on the infrastructure and building sites. The progress on these Libyan orders has been slow. Because these Libyan orders constitute a very significant portion of the group's order backlog, you are seeing some contraction in the revenues. Going forward there maybe delays for another one or two quarters but the projects are pretty much on track and there is no change in their execution schedule. Further, we see a very big opportunity on the road and on the power side in India and we will see that rolling out over the next 12 months. The completion cycle of those contracts will be longer than the traditional oil and gas contracts that we execute.

Ravi Keswani: Another reason, in addition to what Mr. Chhabra explained, is the appreciation of rupee. Roughly 75% to 80% of the revenues, which we get, are in currencies other than Indian rupees. The numbers, if multiplied by last year's rate of 50 compared to 46 of this year, would automatically lead to a 8% change in the revenue figures.

Inderjeet: What is the total timeline for the Libyan orders as per the contract?

Ravi Keswani: There are three sets of contract and the total numbers of contracts are about eight. They have different completion time ranging from 24 to 48 months.

Moderator: Our next question is from the line of Vishal Sharma BNP Paribas. Please go ahead.

Vishal Sharma: Can you throw some light on the Rs 243 crore orders where there have been delays and the auditor has expressed some concern?

Luv Chhabra: This relates to a particular contract where we have clearly indicated that we have independent opinion from quantity surveyors and two legal firms which indicate that we have a very strong case of recovering our claims. So on a very conservative basis, we have provided for some of those claims for revenue in this quarter.

Vishal Sharma: Can you throw some light on how much of that project is still left out in terms of timeline as well as in value?

Pawan Kumar Gupta: This contract will be finished positively by March end. In value terms, hardly USD 20 million worth of the job is left. All expenses have been provided for.

Vishal Sharma: On your Libyan orders, you said there is a 24 to 48 month completion time. What would be the weighted average time?

Ravi Keswani: It will be between 32 to 34 months because the large value of the orders which is Rs 1.2 billion is with Sembawang and they are of shorter duration.

Vishal Sharma: What was your cash balance at the end of the quarter?

Ravi Keswani: Rs 726 crore.

Vishal Sharma: Your tax rate seems to be too high for one specific item. Was there no tax allowance on that loss?

Ravi Keswani: The losses have occurred in UK so the tax allowance cannot be taken in India.

Moderator: Our next question is from the line of Manish Balwani of Destimoney. Please go ahead.

Manish Balwani: What is the major reason for an increase in other income from Rs 2.5 million to Rs 82.7 million, on a consolidated basis?

Ravi Keswani: There was a matter of emphasis in the accounts in March 2009 which relates to Petronet MHB. In that case the arbitrator has given us some interest on the outstanding. So that interest income appears in the other income in this quarter.

Manish Balwani: Could you tell us which subsidiaries are in losses, resulting in an increase of taxation in the quarter?

Ravi Keswani: There is only one subsidiary which is in loss, that is, Simon Carves Limited, UK. Rs 165 crore is the amount of loss for the quarter.

Moderator: Our next question is from the line of Nishit Master of Anand Rathi. Please go ahead.

Nishit Master: With regards to the Ensus project, what went wrong in terms of the additional costs, which were incurred in this quarter and were not foreseen in last quarter? In the last conference call you had clarified that we have already factored in, any possible, cost increases and we expect the order to be completed by December which actually has happened.

Luv Chhabra: Largely, it is because the project did not get commissioned in December. It got commissioned only towards the end of January. One significant reason was because of very extreme winter conditions in Europe and UK which lead to severe ice formations at the project site. For health and safety reasons we did not permit workers to come in and complete the work. So we lost almost three and a half weeks because of this very severe winter condition. The other reason was that at the time of commissioning, we lost about five days because when we were charging one of the heat exchangers, we found that there was a leakage in the gasket. This heat exchanger was at an elevation and at a pressure of 6.5 bar. A leakage was odd because it was pressure tested to a 10 bar pressure at the factory in Spain from where we bought it. So until the gasket could come in, the bio ethanol had to be purged with air and we almost lost a week in the process.

Nishit Master: The other question relates to Rs 243 crore of the auditor qualification. Is it from the ONGC project?

Luv Chhabra: We have disclosed that this matter was likely to go into arbitration, so we don't want to make any further comments on who the client is.

Nishit Master: Have we recognized the revenue from these projects including the design changes in our accounting or we haven't?

Ravi Keswani: Rs 243 crore relates to the revenues recognized for the design changes. Costs have also been recognized.

Moderator: Our next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: How do you see the ordering activity happening in Middle East and some of the other international regions? Can you also comment on competition, order pipeline, your expectation in terms of fresh order intake going forward?

Luv Chhabra: If you look at the last nine months, we have seen pretty strong order booking in Africa but the Middle East market has been exceedingly slow in this current financial year. There haven't been too many orders that have come in from that market. Whether that is because of a ripple effect of what happened in Dubai and/or because some of the contractors have bid, in our view, numbers which didn't meet our margin expectations. We have got orders from India and Southeast Asia but Middle East has been a cause of concern this year. Going forward, we continue to see that the oil prices have gone up and so the order booking on the oil and gas side will pick up in almost all the markets that we operate in. In India, largely the activity will be driven by the energy and infrastructure sector. In energy, we include power and on the infrastructure side largely highways.

Saion Mukherjee: Can you comment on competition in the international markets from Korean and other players.

Luv Chhabra: Competition has always been there. We found that the sort of prices at which bids were being made by some of the international competitors were at very, very low margins. We obviously don't want to take any such work given our significant order backlog position. We are not desperate for any work which will drop our margins. So we stayed away from bidding at low margins.

Saion Mukherjee: Will it be fair on our part to assume that going forward Punj Lloyd incrementally will get more orders from India than from international market? Will there be a significant change in composition going forward?

Luv Chhabra: I think the composition in India will change. We may see that the Indian component may go up from 30% to 35% or 40%, but it is a moving target. Let us say, six months later, oil climbs up to USD 110 to USD 120 dollars per barrel then you will again see a big surge in oil investment. Therefore, it is hard to predict it.

Saion Mukherjee: Can you throw some light on the kind of margins one should look at?

Luv Chhabra: Our margins have been pretty much in line with what it has been in the past. Way forward, we see typical 10% margin range in infrastructure projects but in oil and gas projects, it is somewhat higher. We do not normally give any guidance but that is the sort of range that we would expect margins to come in on new projects in India.

Moderator: Our next question is from the line of Sumit Kishore of JP Morgan. Please go ahead.

Sumit Kishore: Have Punj Lloyd received any advance on the Rs 17.7 billion Jurong Aromatics order, which has been dropped from the order book?

Ravi Keswani: There was no advance. There were certain milestone payments, which they have made for the engineering and construction work which we have done for them.

Luv Chhabra: As far as the client is concerned, there is no termination or cancellation of order. The order is still valid. Since there has been very little movement on this project during the last few months, we have therefore knocked it off from our order backlog. The moment we see some traction, like the client getting financial closure, etc. it will come back on our order backlog. Therefore, there is no cancellation or termination of the contract.

Sumit Kishore: On the Ensus project, what is the potential quantum of LDs in case they materialize? By when would you expect to have clarity on whether the LDs need to be incurred or it will be waved off by Ensus?

Luv Chhabra: Now that the commissioning is done and we had agreed that we would revisit this issue after the commissioning is over, so in the first week of February Mr. Punj is having a meeting with the chairman of Ensus. The total LDs that can be levied contractually is 15%. Since the contract is of 160 million pounds, the LD can be up to 24 million pounds.

Sumit Kishore: On the Libyan orders, Africa now constitutes around 43% of your order book and we were expecting some revenue booking in this quarter. Do we foresee a weak revenue growth for Punj Lloyd as a whole?

Ravi Keswani: That is not true. Yes, this quarter we were not able to book the revenue, but as I said there are three sets of contracts in Libya. For the first set of projects, which is in joint venture with a company of Tripoli, the work has already started, advances have been paid, equipments have been mobilized and the orders are being placed. In this quarter, the booking of revenue from that first set of contract should start, which is close to about USD 550 or 600 million. For the second set of projects, which is directly in the name of Punj Lloyd, worth about USD 374 million, we are expecting the advance to be paid some time in next week. We are hopeful that work should start on that project within this quarter though we will have to evaluate at the end of this quarter whether we have reached that threshold percentage to recognize the revenues and margins. As regard the third set of projects, which is USD 1.2 billion, the commencement of those projects will happen in first quarter of next financial year.

Sumit Kishore: What kind of a top line growth would you expect for Punj Lloyd on a consolidated basis for FY11?

Ravi Keswani: We do not give any guidance. Definitely there will be a healthy growth in FY11 while this year will be a slightly flattish kind of year.

Moderator: The next question is from the line of Tina Virmani of Kotak. Please go ahead.

Tina Virmani: What is the progress on ONGC, GVK Power and Ador Plant projects? When are they expected to get completed?

Ravi Keswani: Mr. Gupta has already clarified that the ONGC contract will get over by the end of March.

Pawan Kumar Gupta: As far as GVK is concerned, we were asked to proceed with the work only three months back and it is well on its way. The schedule will be counted from the date of start, which the client has notified. As far as the working schedule is concerned, that is not delayed and we still have the same period of completion as is contracted. For the Ador power plant project, a little slow down has happened in Indonesia. So the time extension has been provided by the client and we are well on schedule.

Tina Virmani: What is the progress on the Diggi Port Maharashtra, project?

Ravi Keswani: That is also back on track.

Tina Virmani: The standalone operating margins stand at very good levels of around 12-12.5%. Do you expect them to be maintained at the similar levels or do you expect them to go down on account of hike in the commodity prices, etc?

Ravi Keswani: The margins of any entity depend on the order mix in that entity. So, on a consolidated basis, as Mr. Chhabra said, we expect margins to be in the range of around 10%. I can not comment on entity wise or project wise margins.

Tina Virmani: While bidding for the projects on a standalone or consolidated basis, have you taken some amount of cushion for the raw material price hikes going forward?

Ravi Keswani: If the raw material price impact is on the contractor, we would build in contingencies with regards to the volatilities in the raw material prices.

Moderator: Thank you Ms. Virmani. Our next question is from the line of Pritesh Chheda of Emkay Global. Please go ahead.

Pritesh Chheda: My first question pertains to restructuring that we have talked about in the press release. What steps are we taking and how do we ensure that these instances do not happen through the restructuring processes? Secondly, the net debt figure has increased tremendously on a quarter-on-quarter basis despite the dilution that we took around second quarter. Could you throw some light on that?

Luv Chhabra: Operationally the restructuring process is complete. We now have to figure out from a tax and legal perspective as how to create subsidiaries for these businesses or demerge these businesses. That process is on, though it is not a short process. It is going to take 18 months to 24 months to complete that. Now, how do we ensure that surprises do not happen to a large extent, so there are a couple of processes for that. The most significant one is that about 12 or 18 months ago we have implemented a completely new risk management process. That is one fundamental method by which we ensure right at the bidding stage itself that most of the risks are covered. Of course, a lot of this depends on the experience and knowledge of the company and the process keeps getting refined as we move ahead. Secondly, we have a system of peer reviews where the CEOs from one region or one company will also do a peer review of the significant project in another region or another company. It is a series of steps that we take and I am sure many other companies take similar steps to ensure that these surprises do not occur.

Pritesh Chheda: Could you highlight on the steps taken specifically for restructuring of group and business?

Luv Chhabra: Operationally, the energy division in Middle East, Africa, and Caspian now has two joint CEOs and they have their own independent team. The energy, power and offshore in South Asia and South East Asia is under Mr. P K Gupta. He heads that and he looks after their operations and businesses. Sembawang is an independent company in any case and the Building and infrastructure also has an independent team now to look after its operations.

Pritesh Chheda: How was this structure earlier?

Luv Chhabra: Earlier, the structure was that all these guys were regional presidents that reported to Mr. Kaushik. They now have their own supervisory or governance committee that monitors their performance.

Pritesh Chheda: Can you throw some light on the net debt figures which have moved up sharply?

Ravi Keswani: This is mainly on account of two large projects, which have peaked up during this eight or nine months' period, which you are referring to. These are project specific debts which have increased and these are working capital debt, which does not cause any burden on the cost rate. These will be repaid as the projects get completed. We are hopeful that it would come down either from the end of this quarter or in the first quarter of next financial year. The second reason for the increase in the working capital requirement is, typically what happens is that, one project at a time will peak up and you will get the mobilization advances from the other projects. But in the last one year, the inflow of the mobilization advance of whatever projects we have got in the year, are starting to come now. Like for GVK order we have got the advance in this quarter. For the orders in Libya we are expecting the advances in this quarter. This has resulted in an increase in the working capital

Pritesh Chheda: Did the execution start before the advance for the Libyan project or the GVK project was received?

Ravi Keswani: We start mobilizing, the overhead expenditure is made and the engineering starts as soon as we get the order. There are certain processes to be completed before we get the advance. There are certain milestones to be achieved along with the mobilization to receive the mobilization advance.

Moderator: Our next question is from the line of Srinivas Rao of HDFC Mutual Fund. Please go ahead.

Srinivas Rao: If I look at the third quarter and as you said Rs 165 crore are related to this project, so should I add that to elevate the steady state margins? Is it the right way to look at?

Ravi Keswani: That will be the historical margins and not the steady state margins.

Srinivas Rao: So if I add this project, the three months and nine months historical margins are much higher than what we are saying. So, where is the gap?

Ravi Keswani: That is your interpretation and you can interpret that we have been conservative in providing the margin guidance. Way forward, as Mr. Chhabra said that a lot of business is expected from road sector in India where the margins will be lower than as compared to energy markets. So considering that, this 10% number is being provided.

Srinivas Rao: How much have we spent for the Heera project? What is the change in the project cost, how much money have you received till date and what is the accounting treatment made for it?

Ravi Keswani: The project originally was worth USD 290 million. Though these are not the exact numbers, I can confirm the exact number to you later. We have already built and received roughly about USD 230 million. All cost incurred till date and to be incurred till completion have already been provided for. In this quarter we have booked roughly about USD 51 million of the gain to revenue, which still needs to be accepted and paid for by the client.

Moderator: Thank you. Our next question is from the line of Lokesh Garg of Kotak Securities. Please go ahead.

Lokesh Garg: What was revealed in last year's annual report was a cost claim of around Rs 500 crore and what the auditors have qualified as revenues in this quarter is around Rs 234 crore? So do we believe that revenues worth around Rs 260 crore or Rs 270 crore are still pending for recognition?

Luv Chhabra: It will happen once we go through the entire process and we have a settlement, whether through arbitration or otherwise. Only then we will know how much incremental amount we will have to recognize as revenues.

Lokesh Garg: Related to this order it was said in the previous con call that this order is likely to be completed by November-December period once the monsoon ends. Now you say that it will be completed by March 2010. Is there a delay in the final stages of completion of this order as well?

Luv Chhabra: If you remember, there was a cyclone which prevented the work for over a month at that time. Secondly, our own barge was to come in from China to execute the work and we expected that in the last quarter. Unfortunately it got delayed by three to four months. So, we had to hire barges which have led to another delay.

Lokesh Garg: If the client does not agree to full amount of claims, then in that case do we write off those numbers, to the extent that it does not agree?

Luv Chhabra: I do not think that the client is going to willingly agree on such a large amount of claims. We will have to go through a third party process to recover our claims.

Lokesh Garg: Will you write off the remaining amount if the settlement amount is less than what you have claimed?

Luv Chhabra: Yes. We have recognized it on a conservative basis not just because it is a conservative amount but more importantly on the back of independent opinion from two legal firms and one UK-based quantity surveyor firm. It is only after seeing those legal opinions that we have decided to account for part of it on a very conservative basis.

Ravi Keswani: The cost escalations have already been provided for in the P&L as cost.

Lokesh Garg: What I understand is that you have booked revenue of Rs 1,200 crore and you have booked a cost of Rs 1,700 crore?

Ravi Keswani: Revenue of Rs 1,200 crore plus Rs 234 crore.

Lokesh Garg: So that means revenue of Rs 1,200 crore plus Rs 234 crore and equivalent amount of cost has also been booked. Am I right on that?

Ravi Keswani: The cost of more than Rs 1,700 crore has been booked.

Lokesh Garg: For the Libyan orders, the first set of orders came in the books of Punj Lloyd in January 2009 which means more than a year ago. From the very detailed response that you provided, it seemed that work on those first set has just started. The second set came in July and it seems that advances have just come. I understand that these are large orders and takes time for things to materialize. Do you think that these orders were given in much hurry as now the actual execution is following natural course of slightly delayed action.

Ravi Keswani: That is not the case. These are EPC orders for township planning work to be done. It normally requires six months of design engineering in such kind of contracts to be completed, before you start on the groundwork. Typically, for these township projects, although the engineering value is very low (less than 3% or 4% of the total contract value), it takes six months to complete and get approvals of the design. Only then you can start the ground work. So that is very normal in any township kind of work.

Luv Chhabra: There are a couple of more reasons in addition to these. Originally there was a plan to have Singapore-based architect, which is now being changed to a Jordanian-based architect, which the client wants. The other bit is regarding the ownership in some of the projects that Sembawang has received. From the client's side, the company that is the owner of the project, there are some changes in thought as to who really should be the owner of the project. So that has led to some delay. Yes, the project has been delayed, but other than that there is no change of thought.

Moderator: Thank you Mr. Garg. Our next question is from the line of Venkatesh B of Citigroup. Please go ahead.

Venkatesh B: What is the size of the PTT Thailand order?

Ravi Keswani: That was around USD 150 million.

Venkatesh B.: Are the PTT Thailand and the aluminium fluoride order in Abu Dhabi delayed by any chance?

Ravi Keswani: The total contract value of PTT Thailand project is USD 125.3 million and the scheduled completion is March. So, at present we are running 60 days behind schedule in that job and this delay is not because of us. It is because of some design change from the client and other contractors. Therefore, the project which was supposed to be commissioned in April will be commissioned by June. The Abu Dhabi project is going on schedule.

Venkatesh B.: What is the capex you have done in the nine months and what is likely in the last quarter?

Ravi Keswani: The capex in nine months is roughly about Rs 260 crore and we do not foresee any major capex coming in the last quarter. Overall it will be less than Rs 300 crore. The significant portion will be for barge and office building.

Venkatesh B.: You were evaluating to do a Singapore listing of Sembawang. Any thoughts on that or has it been put on the back burner?

Ravi Keswani: No thoughts on that as yet.

Moderator: Our next question is from the line of Nitin Bhasin of Noble. Please go ahead.

Nitin Bhasin: We have read in certain journals that one of the orders of Simon Carves has been canceled which was awarded in early 2007. Can you throw some light on that?

Luv Chhabra: This was an engineering order leading to a full-blown EPC. We have completed the engineering for the project and decided not to go ahead with the P&C portion. So we have settled with the client on that project.

Nitin Bhasin: Any particular reason for that? Were there any delays or payment issues from the client?

Luv Chhabra: No, that was not the reason. Basically, given the track record of what had happened in the other projects with Simon Carves, we decided not to go ahead.

Nitin Bhasin: But you formed this view only after two and a half years of winning the orders.

Luv Chhabra: No, this sort of view had been formed and discussions were on with the client. They were looking for a construction company and they could not find one. Now it is only after some time that they have been able to find a Korean company that will execute the contract.

Ravi Keswani: If you look at the announcement which we made and the order backlog which we included when we got this order, what we included in the order backlog was only the engineering part. At that stage, we have indicated in the release, very clearly, that at a later stage, it will be converted into EPC at a mutually agreed price. That mutually agreed price was never reached. So there is no question of any termination. That was never agreed between the parties. What was agreed to was only the engineering.

Nitin Bhasin: Are there any receivables outstanding from this particular job?

Luv Chhabra: Whenever the retention period for that is over, it will get paid.

Nitin Bhasin: Are there any delays happening in the Sabah Sarawak gas pipeline project? When is it likely to be completed?

Pawan Kumar Gupta: It is considerably delayed because of some different parameters of gas found there. Therefore, they had to redesign and re-engineer everything and thereafter, the tender has to come in next June. This pipeline is meant to transport such gas to their LNG terminal in Bintulu. So this pipeline was accordingly delayed and even the pipe manufacturing, which was supposed to be done by Petronas and pipe supply, which was free in this job, were delayed. Because of these reasons, the ROW acquisition was also delayed in that matter. We have got an extension claim of about USD 95 million. The contract value has been increased. One more claim of USD 50 million has been raised to them for another six months extension. As far as the project is concerned, it is going on well and the client is extremely happy with the progress shown on the job.

Nitin Bhasin: Would that mean that the pipeline revenues were short of expectation in this quarter, for this reason?

Pawan Kumar Gupta: Yes. Right now the progress should have been 70% but instead of that it is only 30%.

Nitin Bhasin: What is the completion date for this project?

Pawan Kumar Gupta: The current completion date is third quarter of 2012.

Nitin Bhasin: Can you throw some light on the order cancellations in Southeast Asia and Middle East. We understand it is Jurong in Southeast Asia, but what were the order cancellations in Middle East, if any? We also find order cancellation on the pipeline and infrastructure sector, if we look at the sector wise breakup.

Pawan Kumar Gupta: There is no order cancellation for Jurong Aromatics order. It is not an order cancellation. Order is still on but we have removed it from our order book thinking that the project is getting delayed.

Nitin Bhasin: So when you do simple calculations you see that there has been a negative kind of an order addition in pipeline and infrastructure. Can you explain why there was a negative trend in pipeline or infrastructure sector? Was any order scaled down in terms of value?

Ravi Keswani: There have been no cancellations. There is only one removal of an order from the order backlog which is the Jurong Aromatics and that still is a legally valid binding contract between the client and Sembawang. We will include this as and when client gives us the notice to proceed to work further on the project. As regards to the second part of your question, you can not put simple arithmetic to it. You can not just start with the orders in hand and add the new orders received; reduce the turnover and you get the order backlog. It is not that simple arithmetic. 80% of the order backlog is in currencies other than Indian rupees. The impact of the movement in currencies is done only once in a quarter. So if, last quarter's order backlog of say US dollar value was multiplied with Rs 49, this quarter you are seeing that value being multiplied with Rs 46. That is one reason why it is not a simple arithmetic and the second reason is that some minor positive or negative movements keep on happening in all contracts. So these movements in the contracts are also adjusted at the end of the contract.

Nitin Bhasin: As you are moving towards the Indian orders, especially the infrastructure orders, so from here on, your working capital investment would be really different from what it was earlier when you were EPC focused company. Is it right to understand that working capital cycle would be more like the other infrastructure companies in the country?

Ravi Keswani: I do not think there will be a major change in the working capital requirements as such. There could be a movement of may be five days here and there.

Moderator: The next question is from the line of Harish K. S. of Tower Capital. Please go ahead.

Harish K. S.: What will be the likely profits or losses in Simon Carves in the fourth quarter?

Luv Chhabra: That is a difficult question to answer. If things are settled well with the client, it is the cost of about 100 people and the overhead cost of rentals, etc. I think, the focus on Simon Carves is to transform the company and start getting robust orders on the engineering side and we have indicated this strategy earlier. The idea is that Simon Carves becomes a front-end engineering company, given its history and track record, and look at three sectors in that region which is biofuels, petrochemicals and nuclear. The market for biofuels and petrochemicals should revive over the next couple of years. The idea is that the detailed engineering work will be offshored into India into PL Engineering. So, it will take some time, with the Ensus project now getting commissioned, the focus is on business development and getting new engineering orders.

Harish K. S.: Out of Rs 165 crore, how much was the loss provided for only on account of cost overruns?

Ravi Keswani: Substantially, it relates to the Ensus cost overheads. The other reasons for the losses are relating to the forex. There is a huge funding through debt and through inter-company loans of losses, which we have done for Simon Carves and there is an interest limit on that. We have downsized the operations, so the retrenchment cost is also included. All these factors contributed about 20.7 million sterling pound of loss in this quarter.

Harish K. S.: What is your outlook on FY11 order inflows?

Ravi Keswani: We do not give guidance or any specific numbers. I think, based on the level of bidding activity we continue to see a healthy outlook for order buildup.

Harish K. S.: Regarding the project in which we had cost overruns and where the auditors have qualified, what is the extra cost that we have actually booked for this quarter alone out of that Rs 234 crore revenue?

Ravi Keswani: We have booked the entire cost because this is a loss-making order. We have already provided for the entire cost incurred and to be incurred on this project.

Harish K. S.: Can you tell me the incremental portions? Just wanted to remove the one-off items.

Ravi Keswani: We cannot give project-specific cost numbers. You may remove one-off only Rs 165 crore, which is the Simon Carves loss. Rest is the normalized numbers.

Moderator: Ladies and gentlemen due to time constraints that was the last question and I now hand the conference over to the management for their closing comments.

Luv Chhabra: Ladies and gentlemen, thank you for joining this call. Our outlook, as we have indicated earlier, based on the level of bidding that is going on in the various regions, continues to look much better than it did six months ago and we are hopeful of building up a significant order book during the next financial year. Thank you.