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Pipe Dreams

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When the Punj Group, a leading Indian supplier of air-conditioning and insulation materials, split up in 1989, Atul Punj, then 32 and the third generation in the business, got a piece nobody in his family wanted: a construction outfit with revenues of $2 million and debts of more than $3 million. "It was bankrupt. We were borrowing money at 30% interest just to pay salaries," recalls Atul. "That's when I started traveling first class--to give people the impression that I wasn't broke!"

Such subterfuges are no longer necessary. Surmounting the odds, Atul, now an energetic 51-year-old who prefers wearing jeans to business suits, has transformed the dud that he inherited into the Bombay Stock Exchange-listed Punj Lloyd, a fast-rising engineering and construction firm, India's second largest after Larsen & Toubro. The company has been on a tear, growing revenues and net profits at 40% annually on a compounded basis since 2004. Last year it posted $1.6 billion in revenues and $72 million in net profits.

As for Atul, the 44% stake that he holds with his family is worth $386 million today. That's 75% off its peak value in January but still good enough to allow him to travel not just first class but in his company's private jet. He uses it extensively to visit Punj's projects in locations as far-flung as Kazakhstan, Libya, Oman and Indonesia. These oil-producing regions provide a clue to his business: Punj Lloyd specializes in building infrastructure for the oil and gas industry including laying pipelines (onshore and offshore) and building tanks, terminals and refineries.

Falling oil prices and the ongoing global slowdown underscore the challenges for Punj Lloyd. But Atul is unfazed. He points to the healthy backlog of orders in the company's pipeline, valued at a total of $4.4 billion. Moreover, he says that projects in the oil sector are those with an exploration cost of less than $40 a barrel, still giving Punj some leeway.

Scott Bayman, the former country head of ge in India, who sits on the company's board, is less sanguine: "The way markets are right now, customers won't be able to raise capital easily, so there's a likelihood of new projects getting impacted. The key challenge for Atul is to focus on profitable growth."

But Atul maintains that the oil companies that are Punj's main customers are financially sound. "We have a two- to three-year visibility in our business, and we aren't seeing a slowdown yet," he insists.

Punj Lloyd is benefiting from its geographical spread. The company has executed projects in as many as 60 countries and gets 65% of revenues from overseas. This includes business generated by Sembawang Engineers & Constructors, the group's Singapore arm, and Simon Carves, its engineering design firm in the U.K., both acquired by Punj Lloyd in 2006. Current projects include an $800 million pipeline for Qatar Petroleum, a $500 million gas pipeline for Petronas in Malaysia and a part of the upcoming Marina Bay Sands Resort in Singapore. To tap into Saudi Arabia's oil and gas sector, Punj Lloyd has forged a joint venture with Dayim, a firm owned by royalty. "No matter how good [India] looks, one must never be dependent on growth from any one market," Atul asserts.

It's one of many lessons he's imbibed over an eventful career. Atul grew up in Delhi with three siblings (none of whom is involved in the business). Their grandfather, a trader, had migrated from Rawalpindi, a city in what is now Pakistan. The second generation moved into manufacturing truck bodies, industrial insulation materials and air conditioners (in partnership with Fedders Corp.).

Atul, who admits to being "the brash one in the pack," was keen to study in the U.S. His dad agreed, on the condition that he get married first. "That killed my American dream," he smiles. After attending university in Delhi, he joined the family combine. One of his first jobs was to manage an insulation project in Iraq at Khor al-Zobair, 50 miles southeast of Basra. When the Iraq-Iran War broke out in 1980, some 3,000 workers on the project had to be evacuated overnight. That trial by fire sharpened his ambitions. "I was fed up with wrapping wool around pipes that somebody else had built," he relates.

Returning home, he bid to construct a 100-mile oil pipeline between Mumbai and Pune for state-owned Hindustan Petroleum. He was grilled by a ministry bureaucrat in New Delhi: "Young man, has your company ever welded two pipes before?" After 18 months of lobbying, his $5 million bid was finally accepted. "From a zero, I became a hero in the family," Atul recounts.

The glory was short-lived. The project was beset by problems, mainly because, he admits, he'd underestimated its complexity. "The arrogance and impatience of youth had kicked in big time," he sighs. The pipeline was eventually completed two years later but had racked up losses that the group could ill afford. He was back to being a zero.

But by the late 1980s family divisions left him as heir to the construction interests. India's sluggish economy at the time and his dire financial straits drove him to look for business outside the country. Punj Lloyd got its first overseas break as a subcontractor to PT Trihasra Bimanusa Tunggal, an Indonesian firm with Suharto family ties that had the contract to build a 130-mile pipeline for Pertamina, the state-owned petroleum firm.

Raising a bank guarantee for $2.6 million (20% of the total contract amount of $13 million) was a nightmare as he couldn't provide any security collateral. The banks he approached showed him the door. Ten days short of the deadline a banker at ICICI Bank agreed to provide the guarantee, accepting Atul's word as collateral. Punj executed the Indonesian project six months ahead of schedule, making enough money to wipe out its accumulated losses. "That's when our journey really started," says Atul.

The timing was fortuitous. As India's economy opened up to foreign investors, megaprojects in the energy sector got under way. Over the next seven years Punj Lloyd built pipelines in India, Indonesia and Malaysia, expanding into building tanks and terminals for petroleum products and then complex cryogenic tanks for liquefied natural gas for clients such as Shell and Enron.

However, hubris led Atul into another misstep. While building a fiber-optic network for telecom firm Bharti Airtel, he latched on to Internet services, which were just taking off in India. Atul admits that he was lured by the prospect of making a quick buck. Borrowing $50 million from ICICI Bank in 1999, an amount equivalent to Punj Lloyd's revenues that year, he set up Spectranet, an ISP.

In January 2000 Nomura Securities offered to buy Spectranet for $350 million, boosting its offer to $550 million in August. Atul was set to make a killing, but a month later the technology bubble burst and Nomura backed out of the deal. Punj was once more on the brink. "We'd run out of cash and were leveraged to the hilt. Through it all, Atul kept smiling so we never felt that we were going under," recalls Luv Chhabra, Punj Lloyd's director of corporate affairs.

Regrouping, Atul turned his attention back to construction. Again luck and timing worked in his favor as markets like Kazakhstan and Libya opened up, drawing in the world's oil majors. Punj Lloyd made early inroads into those countries, initially securing modest contracts as a subcontractor to big firms like Bechtel and Kellogg Brown & Root (now KBR). "Today we can compete with the global majors," says managing director Vimal Kaushik, a 38-year Punj veteran.

In a bid to unlink Punj from the notoriously volatile energy sector, Atul has expanded into infrastructure, a crying need in India. Punj has built highways, ports and elevated railroads. In June it forged a partnership with Singapore Technologies Kinetics to make defense equipment.

Atul has set a tall target for Punj: to be among the top five engineering and construction firms by 2012 in the markets in which it operates. (It now is only a fourth the size of Larsen & Toubro.) Age seems to have tempered him a bit, though. "We've had some serious tailwind behind us in recent years, but this is a real stretch goal," he acknowledges. "So when I come to the office every morning, I try to remind myself: This is your first day on the job."