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# Over All The E

**Punj Lloyd's early gains in global infrastructure projects might be a role m other infrastructure companies that are emerging from In**

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ATUL PUNJ WAS STARING AT FAILURE. It was 1992, and political interference and bureaucratic delays were stifling his company Punj Lloyd, a sub-contractor for road and infrastructure projects, from graduating to bigger contracts within the country.

Angry and frustrated, Punj decided to explore similar projects abroad. After a hard grind knocking many doors, Punj bagged a $13 million, 210 km-long pipeline deal in Indonesia. This was its first overseas contract and also the biggest he had ever handled. But his excitement was shortlived. No one was willing to lend to a Rs 3 crore company (its revenues in 1992) that already had a debt of Rs 5 crore.

"Not many had faith in our ability to deliver," recalls the Chairman of Punj Lloyd Group. He almost gave up, but the only reason he hung on was pride. "It was hard for a third-generation businessman to even think of being broke or working for someone else," he says. Soon, he managed a last-ditch meeting with the then ICICI chairman, N Vaghul, and got the required funding.

Thus was born Punj Lloyd's global business. Step by step, he bagged projects in South Asia, the Caspian region and the Middle East. Then came a few key acquisitions and a bunch of partnerships. Today, Punj Lloyd has moved into 17 countries and earns around $1.18 billion, or 59% of its total revenues of $2 billion, from projects abroad. "We took a conscious decision not to risk our business on a single country," says Punj. "There were lots of opportunities outside India, and we went after them."

He has just returned from an offsite group meet in Lisbon, after a jet-setting whistle-stop tour of project sites in London, Singapore, Milan, Kuala Lumpur and Jakarta, a hop-and-skip routine he usually follows two to three weeks every month. About 20% of its 8,000 employees come from 20 nations. The global HR head is a British national, based in Delhi. It cross-deploys people across countries, and it is also planning to set up training institutes within and outside India. "We get the feeling that we work in a global company with headquarters in India," says Luv Chhabra, Director of Corporate Affairs.

## Appetite For Risk

It was the courage to go global that saved Punj Lloyd. "Now, we have enough cash to bid for a $500 million overseas contract without borrowing," boasts Punj. Last year,

**LOOK, WHO'S BUILDING SINGAPORE:** Punj Lloyd is doing prestigious work in the island nation. And in 16 other countries

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Punj Lloyd made a net profit of $90 million from its myriad projects in oil and gas, petroleum, infrastructure, real estate, aviation, and now defence production, and has an order book of $4.9 billion. It was only $100 million when it went public in FY06.

More importantly, Punj Lloyd's globally-oriented business model could serve as a classic case study for a bunch of infrastructure companies that have emerged as strong domestic players, but have little overseas exposure. These companies—including Gammon, GMR, GVK, IVRCL, Lanco Infratech, Nagarjuna Construction—together earn only 4% of revenues from global projects. Even larger and better-known companies like Larsen & Toubro lag behind Punj Lloyd (*See graphic: A World View*). These companies need to develop a global portfolio in order to diversify and mitigate their risk. Putting all eggs in one basket, even if it is a hot-growth country like India, may not be prudent in the long run.

"A team is currently studying the dynamics of global operations. We will take a call in the next three to four months after a detailed SWOT analysis," says E Sudhir Reddy, Chairman, IVRCL Infrastructure & Projects. The Middle East seems the most attractive market to be in. "We are open to tapping markets which have opened up recently, such as Vietnam, Mexico and the Middle East," says A Issac George, Chief Financial Officer, GVK Power & Infrastructure. He hastens to add that going global is not an immediate priority, but a long-term objective.

Gammon India, which is currently working on a project in Oman, has bid for several international ones, says RL Telang, Vice-President, Marketing. Even L&T Chairman AM Naik, one of India's biggest infrastructure builders, understands the global imperative. He wants L&T to earn a quarter of its revenues from overseas projects. That figure now stands at 17%, with the Middle East being the mainstay.

By 2011, Punj Lloyd expects to earn 85% of its revenues from a diversified mix of two dozen countries outside India. By then, the company expects to be a $5 billion corporation. That would mean adding around $1 billion (or over Rs 4,000 crore) to its top line each year for the next three years. Much of that will come from abroad, even though its India revenues will also grow at a healthy clip.

### A World View

Be it in absolute or relative terms, Punj Lloyd has a greater global presence than all other major Indian infrastructure companies.

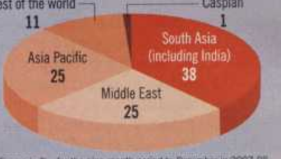
**Punj Lloyd versus others**

| | Revenues (Rs cr) Total | Global | % of global share |
|---|---|---|---|
| Punj Lloyd | 7,871 | 4,658 | 59.2 |
| L&T * | 18,951 | 3,202 | 16.9 |
| Simplex | 2,846 | 478 | 16.8 |
| Afcons | 1,767 | 114 | 6.5 |
| Gammon India | 2,413 | 143 | 5.9 |
| Jaiprakash | 4,616 | 74 | 1.6 |
| HCC | 2,694 | 63 | 2.3 |
| Lanco | 1,604 | 1 | 0.1 |
| GMR | 2,365 | 0 | 0.0 |
| GVK | 532 | 0 | 0.0 |
| Nagarjuna | 3,518 | 0 | 0.0 |
| IVRCL | 3,771 | 0 | 0.0 |

Figures for 2007-08; * Engineering and construction division

Source: BSE India, CMIE, company reports

**Punj Lloyd's revenue breakup by geography**




All figures in %, for the nine-month period to December in 2007-08

Source: company

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## The Courage To Buy

Punj Lloyd has also strung together a few overseas acquisitions that are helping it take on bigger and more complex global projects that also offer better profitability. A 2006 acquisition of Singapore-based construction company, Sembawang Engineers & Constructors (SEC), for $40 million (Rs 160 crore) opened up new markets such as China, UK and Iran and deepened Punj Lloyd's presence in South East Asia.

Exposure to high-profile projects, such as Marina Bay Sands Integrated Resorts, Singapore, Changi Water Reclamation Plant, Singapore, Jumeira Island Villas, Dubai, or light rail transport system, Singapore, further spruced up the group's EPC capabilities.

Simon Carves, a 100% subsidiary of SEC based out of UK, gave access to larger and more complex projects in the refinery and petrochemical segments, while exposing the group to new sectors such as pharmaceuticals, biotech, and nuclear power plants. SEC came with an order backlog of $1.9 billion (largely low-margin contracts).

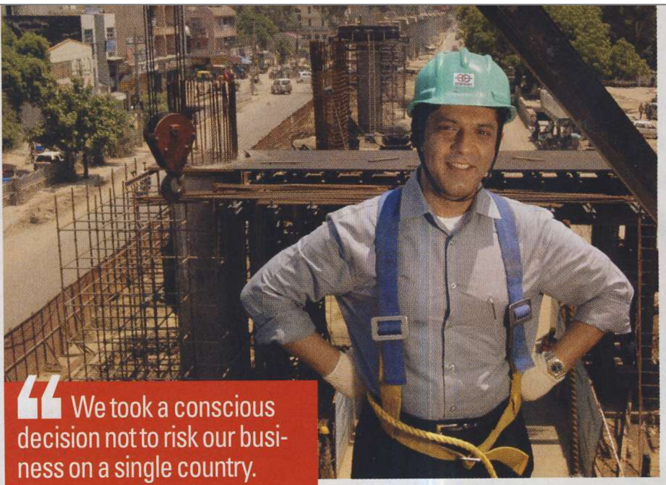
"The SEC acquisition was a shot in the arm for the company. It put Punj Lloyd in a different league," says Pulkit Bakiwal, Research Analyst (Capital Goods), Sharekhan. "It enhanced its execution capabilities." And in June this year, it acquired a 74% stake in UK-based Technodyne International, with specialisation in large-scale cryogenic and high-pressure tanks.

Similarly, the group's Rs 350 crore investment in Pipavav Shipyard for a 23% stake will give it a firmer footing in the offshore segment with access to fabrication facilities for platforms and rigs. Also on the anvil are plans to get into commercial and naval shipbuilding and repairs.

## Partnership Power

"Partners help to mitigate risks," says Punj. His joint venture with Saudi Prince in 2006 helped to bag several EPC contracts for onshore and offshore projects in the country. Punj Lloyd's entry into the real estate sector with the Ramaprastha Group through a 50:50 JV, and the MoU with GMR Group for bidding for large-ticket road projects in the country, are pointers to that effect.

More recently, it has inked a pact with Singapore-based ST Kinetics for manufacture of defence equipment in the country. To start with, the joint venture will make barrels for light Howitzer guns in Gwalior for the Indian army. Potential partnerships with international aircraft manufacturers, including US-based Boeing and European aerospace player, EADS, are also being explored.



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> **Chairman, Punj Lloyd Group**

"The defence and aerospace business has the potential to become as big as our core business in oil and gas and infrastructure," says Chhabra. But critics point out that manufacturing is not in the DNA of the Punj Lloyd Group. "We are on the same page as any other large business group that has recently made a foray into the defence space. We will go through the learning curve," counters Ravi Keswani, Executive Vice-President, Punj Lloyd.

## Fortune Favours The Brave

A few macroeconomic factors have also helped Punj Lloyd along, but only because it ventured abroad so early. "The rising petro-dollar spend in the Middle East and Caspian markets will make these markets grow faster than India," says Keswani. That could be a $500 billion segment with big margins. "As the price of crude oil went up, many clients expanded their project's scope, scale and complexity," says Vimal Kaushik, Managing Director, Punj Lloyd. "Though it delayed many projects, on the whole, it meant good business." Even though oil is now down to $100 a barrel, enough wealth has been created in the oil-producing nations to sustain capital spends.

Here, Punj Lloyd will run into its illustrious rival, the Rs 26,000 crore L&T. But its geographical spread and existing relationships would come in handy. Besides, there will be strong global competitors too. Margins in the sectors are from 7-9% and could come under pressure. "Venturing into markets such as Libya and Yemen, where Western players tread more cautiously, offers better returns," says a senior company executive.

But analysts worry about Punj Lloyd's diversification. "At a time when companies are looking at integrating their value chain, any diversification process has to be cautious," says Arvind Mahajan, Executive Vice-President (Infrastructure Practice), KPMG. Punj Lloyd is planning to counter that with an organisational restructuring that will bring in sharper focus and better risk-management at individual business units. A management consultant is likely to be roped in soon. Taxation-related issues across different geographies are another reason for the proposed rejig.

## The Final Frontier

Punj is now is gearing up to attack a new frontier: the Americas. Though non-committal on a time frame, strategic alliances and acquisitions are part of the play, he concedes. He may not enter the United States directly, but start off with Canada. The Texan government is checking out the public-private partnership route to upgrade several highways using the build-operate-transfer model. Analyst reports suggest that the US infrastructure opportunity could exceed $1.7 trillion and it is only a matter of time before current rules are relaxed to allow more free flow of international investments. "The US opportunity will overshadow any other around the world," says Punj.

But before that, oil-rich Latin American countries like Venezuela would offer good projects. With hectic oil and gas exploration activities, the region is attractive. Sixteen years after the Indonesian adventure, Punj is ready to journey over all the earth. ■