

# “PUNJ LLOYD’S TURNAROUND HAS ALREADY BEGUN”

Heading a company that has not seen any revenue growth in the last five years and has ended five of the last six years with losses can be a very daunting task, particularly if it operates in some of the most politically volatile regions of the world. But doing exactly this is Atul Punj, Chairman, Punj Lloyd, who tells *The Dollar Business* his strategy to turnaround the company’s fortune

INTERVIEW BY SISIR PRADHAN

**TDB:** In the last 10 years, the share of revenue from abroad in your total revenue has consistently risen, while EBITDA margin has shrunk. How would you explain this phenomenon?

**Atul Punj (AP):** The increased share of international revenue is reflective of the slowdown in capex investments and consequent delays in infrastructure and construction projects in India during the last decade. Our EBITDA margins have largely been stable in the low double digits – any blips have been more because of foreign exchange volatility.

**TDB:** Given that both domestic as well as global oil and gas majors are your clients, help us understand the differences in the way they operate.

**AP:** For any client, whether domestic or international, quality is imperative and Punj Lloyd has developed its standards of execution to those accepted internationally, making it a preferred global EPC contractor. The difference in operations is more linked with the market structure/ economy than the client per se. For instance, in the absence of a central nodal agency, land acquisition or clearances take time, hence project execution in India is more challenging than overseas. Within domestic and international markets, clients differ based on internal organisational processes and structures. In our experience, clients like

PETRONAS, Shell and GSPC have proactively resolved disputes with contractors during project execution, leading to faster project completion and trust.

**TDB:** In the last 10 years, raw material cost (as a percentage of revenue) has increased by 900 bps and contractor cost has increased by over 800 bps. Is it because your pricing power has failed to keep pace with costs? If yes, why?

**AP:** As an EPC Contractor, Punj Lloyd handles multifarious projects. Depending upon the type of project, cost of material in the overall cost of project varies from 35 to 65%. Further, there are clients’ free issue material as well. Thus, pricing of a project depends on type of project and is not a constant.

**TDB:** Being heavily dependent on the oil and gas sector, how do you think the recent crash in crude oil prices will affect you?

**AP:** Punj Lloyd provides EPC services across the entire gamut of infrastructure, including buildings, airports, rail transit systems, highways and expressways, besides the oil and gas sector. This diversified presence, both geographical and in business verticals, enables Punj Lloyd to quickly readjust its strategy to maintain growth. With the increased infrastructure spend globally and the development agenda of Government of India, the op-

portunities in buildings and infrastructure, metro and railways are promising.

**TDB:** You operate in some of the most politically unstable parts of the world like Libya. Tell us what has been your experience there. Have things deteriorated significantly in the last few years?

**AP:** Punj Lloyd has grown from a pipeline contractor in India to a global EPC diversified conglomerate, a fact made possible owing to its spirit of entrepreneurship. Crossing Indian borders, Punj Lloyd has diversified in businesses and geographies, and today operates across 23 countries. While this predisposes it to market or political risks in newer regions, it is indisputable that the same heterogeneity hedges it against fluctuations of any one economy. Punj Lloyd made its foray into Libya when it had high potential for infrastructure development. The civil war and the resultant unrest could not have been foreseen. Punj Lloyd remains cautiously optimistic about its future. It has however strengthened its risk identification and mitigation processes to evaluate its expansion into new territories.

**TDB:** Over the last decade, your total debt has grown at almost the same rate as your topline. When can we see an end to this? What plans do you have in place to reduce debt?

**AP:** Punj Lloyd is not unique in suffer-



ing from debt. This is an industry trend which can be attributed to a series of factors. Comparatively, Punj Lloyd’s debt is far lower as compared to the industry.

Some of our projects were impacted by delayed or non receipt of payments, which impacted our working capital cycle, necessitating raising of debt. We have, over the last two years, been working intensively towards recovering these receivables. Early breakthrough has been achieved and more is expected.

Concurrently, we have been focusing on monetising of non-core assets. Punj Lloyd has recently sold its entire shareholding in Global Health Private Limited (Medanta) to pare debt. All these initiatives will result in reduction of debt and a stronger balance sheet.

**TDB:** The main reason for Punj Lloyd’s high cost of debt is a lot of rupee-denominated working capi-

WE ARE FOCUSING ON MONETISING NON CORE ASSETS IN ORDER TO REDUCE OUR DEBT BURDEN

tal loans. Do you have any plan in place to change this? Are there plans to raise cheaper dollar denominated long-term debt in the near future?

**AP:** We are continually exploring options to bring down both the volume of debt and cost of borrowing. The cost of conversion of some of these loans from rupee to dollar denomination is, in some instances, quite high, making it unviable to do so. The present regulatory regime also does not permit raising of dollar loans as ECB (external commercial borrowing) by EPC companies.

**TDB:** What are your expectations from the defence segment? By when can we expect to see it making a significant contribution to your topline?

**AP:** The Government has taken the right steps to promote indigenous manufacturing in the defence sector. All these steps create a positive and stable

framework for investment in this sector and enable collaboration with international defence companies for transfer of technology.

Punj Lloyd is excellently positioned to undertake both aerospace and land systems work. A modern, high tech manufacturing facility, all necessary certifications and the experience of working with marquee clients like HAL, Gun Carriage Factory among others, are the building blocks necessary for the defence initiative to take off.

**TDB:** How have things changed on the ground since the Modi government took over? Can you tell us about your specific demands from the government?

**AP:** The government spend, coupled with a positive investment climate, will provide the impetus for GDP growth. For this to happen, quick action on the stalled projects getting back on-stream, and tangible investment on ground will have the desired effect.

**TDB:** Realistically speaking, when do you think Punj Lloyd will be back to its glory days?

**AP:** Punj Lloyd is a diversified EPC conglomerate. It works globally with renowned oil & gas and infrastructure players. A strong foundation has been built over seamless delivery of challenging projects, high standards of safety and quality, and most importantly, skilled people and equipment assets.

The total order booking of Punj Lloyd till date in FY2015 has surpassed the value of orders booked during the two year period 2012-2014, auguring the prospects for improved financial performance in the coming time. This is also symbolic of the trust that our clients continue to have on us.

With the monetisation of assets to reduce debt and internal focus on process improvement and better execution, the turnaround story has already begun. Various government initiatives to improve industry sentiment will also help ensure that Punj Lloyd regains its status as the bellwether of ‘Indian yet Global’ EPC companies. **TDB**

● [sisir@thedollarbusiness.com](mailto:sisir@thedollarbusiness.com)