Focus on overseas markets helps Punj Lloyd win orders

Road development projects present newer opportunities

MICROSCOPE

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Punj Lloyd surprises the market with strong order flows. The firm bucked the trend of slowing order flows in the infrastructure sector, with orders bagged in the September 2011 quarter being twice that in the year-ago period. The company and its subsidiaries bagged orders worth Rs 10,286 crore during the latest ended quarter taking order book to a respectable Rs 26,690 crore. The orders bagged are significant in value – higher than the entire order inflows of FY-11. This marked the highlight of Punj Lloyd's results which was otherwise dotted with a few qualifications from the auditors yet again. The market pushed the stock up 2 per cent on Tuesday's close.

OVERSEAS PUSH

Punj Lloyd appears to have managed this kind of order inflows through its focus on overseas markets. While the break-up of India orders are not available, key projects bagged in Qatar, Abu Dhabi and Dubai indicate that it has received support from these markets. Another strategy that helped the company is its back-to-basics approach of scouting for orders in the oil and gas segment. While oil and gas and civil structure works have traditionally been the primary business segments of Punj Lloyd, the company had also explored the road development segment, given the huge opportunity. However, with severe competition and pricing pressure in large road orders in recent times, Punj Lloyd wisely stayed away from competing aggressively at the cost of margins.

Although audit qualification notes on dispute with ONGC and assets stuck in politically disturbed region of Libya remain, absence of audit qualification on claims made by customers of a step-down subsidiary comes as a relief. Punj Lloyd, last quarter, withdrew all financial support for this UK-based subsidiary, post which the latter is set to be dissolved and assets taken over by another subsidiary.

INTEREST COST PRESSURE

The company's renewed focus on the oil and gas segment is also visible in its revenues. Projects in petrochemical process industries and oil and gas pipeline works accounted for half of the September quarter's revenues. This segment, while is normally lucrative, has however not improved profit margins suggesting pricing pressures. Consolidated EBITDA margins dipped marginally to 8.5 per cent from 9.3 per cent year ago, if one excludes other income from write-back of liabilities, interest and dividends.

Yet another sore point in its latest numbers was the interest cost. Despite the high other income component and 21 per cent growth in consolidated sales, net profits expanded by a mere 3.4 per cent thanks to a 40 per cent increase in interest costs.

The company's management, in an earnings conference, stated that it would look at a debt restructuring exercise to reduce debt as well as the cost of borrowing.