



“RKEC Projects Limited H2 FY19 and FY19 Results  
Conference Call”

**June 19, 2019**



**MANAGEMENT: MR. G. RADHAKRISHNA – CHAIRMAN & MANAGING  
DIRECTOR  
BRIG. G. S. NARAYANA – CHIEF FINANCIAL OFFICER**



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**Moderator:** Ladies and gentlemen, good day and welcome to the RKEC Projects Limited H2 FY19 and FY19 Results Conference Call. From the company's management, we have with us Mr. G. Radhakrishna – Chairman & Managing Director and Mr. G. S. Narayana – CFO of the company.

I now hand the conference over to Mr. G. Radhakrishna – Chairman & Managing Director of RKEC Projects Limited. Thank you and over to you sir.

**G. Radhakrishna:** Good morning ladies and gentlemen. It is my great pleasure to welcome you all again to our investor and analyst conference call to discuss RKEC Projects financial performance for the financial year FY19 and second half of FY19 and also share with you our growth plans and strategy going forward.

As you all are aware, RKEC Projects Limited is a leading infra company with over 33 years of experience specialized in the business of marine works and bridges. The company has completed 92 projects so far worth over Rs. 1700 crores and currently working on 11 projects amounting to Rs. 1145 crores.

During the financial year '19, the company has completed the following 3 projects – construction of multi-user liquid terminal at Cochin port with a project value Rs. 217.32 crores; construction of road overbridge at NH45A in Puducherry with a project value Rs. 34.96 crores; and provision of OTM Accommodation #1 at Leimakhong with a project value Rs. 19.73 crores.

During the year, the company has received 7 new projects worth Rs. 712 crores in total. These projects are – 1). Construction of indoor sports arena in MVP Colony abutting to A. S. Raja College Grounds under smart city at Visakhapatnam, project value of Rs. 19.9 crores; 2). Farakka bridge project which includes construction of new 4-lane bridge over river Ganga, project value of Rs. 521.2 crores in JV with Qingdao Construction Engineering Group Company Limited (CQCE), China; 3). Reconstruction of new building and store accommodation for waterfront facility and slipway at Visakhapatnam, project value Rs. 7.2 crores; 4). Construction of jetty to semi-submersible pontoon at Visakhapatnam, project value of Rs. 46.96 crores; 5). Construction of berth and approach trestles for development of barge with stroke vessel loading facility at Honnavar, project value of Rs. 95.94 crores; 6). Rejuvenation of VinayakSagar Lake phase II at Tirupati, project value of Rs. 8.4 crores in JV with Rapid Net Sports System; 7). Design, execution, operation, and maintenance of sports arena at Indira Maidan and Sri Srinivasa Sports Complex at Tirupati, project value of Rs. 12.23 crores in consortium with Rapid Net Sports System.

The largest contract received during the year was Farakka bridge project which includes construction of 4-lane bridge over river Ganga. The contract value of this project is Rs. 521.2 crores and the duration of completion is 36 months. Company has already achieved the second



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milestone of construction of the bridge project within 180 days against the target of 360 days. Balance work as on March 31st 2019 is Rs. 783 crores targeting another Rs 500 crores worth of projects in the next 6 months.

Financial highlights for FY19: It gives us immense pleasure to tell you that the company continues to achieve and retain strong financial curve during FY19 also. The company's standalone revenue of FY19 grew marginally by 1.8% to Rs. 245.45 crores compared to Rs. 240.77 crores in FY18. The EBITDA for the year ended FY19 stood at Rs. 43.5 crores compared to Rs. 39.48 crores for the year 2018 showing a growth of 10.38%. EBITDA margin and net profit margin for the year FY 2019 stood at 17.76% and 9.83% respectively as compared to 16.4% EBITDA margin and 8.45% net profit margin of FY 2018. Profit after tax for FY19 rose 18.57% to 24.13 crores compared to Rs. 20.35 crores posted in FY18.

The company's turnover for the second half of FY ended 2018-19 stood at 150.21 crores compared to Rs. 117.28 crores posted in H2 of FY18. The net profit for the second half of FY19 stood at 15.16 crores compared to Rs. 9.57 crores posted in H2 of FY 18. The growth in turnover was primarily because of improvement in execution at our running projects. It is my pleasure to inform you that the Board of Directors have recommended a final dividend of Rs. 2 per share for FY19. Return on average shareholders' equity for FY19 stood at 25.15%.

Company Goals:

- To stay strong in the core competent area of marine structures and bridges and improve the market share in the segment.
- To diversify into areas such as oil & gas, specialized buildings, railways, metro, etc.
- To select projects with due diligence and thereby to add value to the investors.

Growth Strategy: Our strategy and pillars of growth are:

- Optimal operational efficiencies by enhancing the project execution capability and efficient project management
- Capture the industry growth potential
- Expand and diversify into new geographies.
- Retain and attract talent.
- To go for asset building by striking a balance between risk profile of owning versus hiring.

Resources and Capabilities: Our key strength and competitiveness lies in:

- Good track record of completion of projects.
- Long experience of promoter in the construction sector.
- Dedicated, focused, and successful team.
- Own fleet of construction equipment.



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- Long-term relationship with clients.
- High-quality cost-effective project delivery capabilities.
- Timely completion of projects.
- Reasonable asset base for the size for the company.

**Risk Factors:**

- Uneven flow of job work completed with resource allocation: We are mitigating these risks by taking up short-duration jobs including subcontracts, etc.
- Stringent credit norms being insisted by banks: In this case, we have opened up a dialogue with other banks and other financial institutions.
- Increase in prices of steel and fuel.
- Delay in release of payments by clients: Constant follow-up with the client being done. Due diligence strengthened for selection of clients in future.

**Moderator:** We will now begin the question & answer session. The first question is from the line of Ruchi Shah who is an individual investor. Please go ahead.

**Ruchi Shah:** How are the tendering activities going on with the same government coming back to power and how many orders have you already bid for?

**G. Radhakrishna:** Madam, we have bid for about 5 projects worth around Rs 303 crores and we are planning to bid for another 6 projects.

**Ruchi Shah:** What is the total order book as of now?

**G. Radhakrishna:** As of now, we have an order book of around Rs 1145 crores out of which balance to be executed is Rs 783 crores as on today.

**Moderator:** The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

**Hardik Jain:** Sir, if you can just help us what is our banking limits that we have today?

**G. Radhakrishna:** Our limit as of today is non-fund based 150 crores and fund based 50 crores.

**Hardik Jain:** Non-fund based includes bank guarantee, performance guarantee, and all that?

**G. Radhakrishna:** Yes.

**Hardik Jain:** I think you mentioned in the call last time that you wanted to increase it to 300 crores and you are talking to Bank of Baroda regarding that, right?



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- G. Radhakrishna:** Yes.
- Hardik Jain:** On today's non-fund based limit of Rs 150 crores, we have an order book of Rs 1150 crores. So, basically with this bank guarantee facility that we have, we can bid for or we can handle Rs 1150 crores order. If our banking facility's non-fund based is increased to Rs 300 crores, then can we handle projects of say worth Rs 2000 crores?
- G. Radhakrishna:** As I addressed in my initial comments, we are targeting another Rs 500 crores of projects this year.
- Hardik Jain:** One small question on the accounts. I was looking through the financials. Last year, the other expenses was 8 crores which also included the IPO expenses. So, basically on an organized level, the other expenses were only Rs 6 crores and it has increased to almost Rs 13 crores this year. So, is there a particular head which has contributed to this increase?
- G. Radhakrishna:** This year if you take it up, the increase in LC and DC processing charges have been put in this head and because our works have increased, the insurance cost also has increased by around some Rs 2 crores I think. Then, there were bad debts written off to the tune of around Rs 75 lakhs. All that added up to increase in this other expenses.
- Moderator:** The next question is from the line of Chitresh Lunawat who is an individual investor. Please go ahead.
- Chitresh Lunawat:** Congratulation for the good year. I had a few questions. One was regarding the UP project where we have receivables of around Rs 63 crores. Any realistic dates by when we can expect the money to come and how much money can come realistically?
- G. Radhakrishna:** By September end, that money will be with us. Out of Rs 63 crores, about Rs 15.93 crores is the performance guarantee amount. Leaving that, I think the balance amount will be with us.
- Chitresh Lunawat:** We will be continuing with completion of the Rs 35 crores left for that project?
- G. Radhakrishna:** We will be completing the balance project also. The talks are going on in that fashion. Committee has been deployed. The committee is preparing a report. By July end, we will get the report and we will start the work maybe probably by July end, and they said they wanted about 2 months to release our old balance.
- ChitreshLunawat:** So, in the 82 crores receivables, 43 crores is only for this particular project, right?
- G. Radhakrishna:** Yes.
- ChitreshLunawat:** In the rest 40 crores, how much would be more than 6 months old?



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- G. Radhakrishna:** Out of the rest, 32 crores is for the retention monies being held by various departments. Those retention monies will be released as and when the work is completed.
- ChitreshLunawat:** Okay, 32 crores of retention money and 43 crores for UP project.
- G. Radhakrishna:** Yes. If you remove around 75 crores, the balance left is 30 crores which is running expense and it keeps coming. No problem in that.
- ChitreshLunawat:** Also, our payables have increased very sharply to 75 crores.
- G. Radhakrishna:** Payables have increased because we have just started a new big project in Farakka. That is the reason why the trade payables have been increased. It is a huge project and it is an EPC contract. It is not an item rate contract. In an EPC project, generally what happens is they keep paying the money on the milestone basis, not on the items. Quantity, they don't pay. They pay on completion of work. That is why huge trade payables will be there and they will be cleared as soon as those payments keep coming to us.
- ChitreshLunawat:** So, we are not facing any issues in the Farakka project for receiving of the payments?
- G. Radhakrishna:** As of now, by god's grace, we are not facing any of the issues.
- ChitreshLunawat:** How many milestones are there for the Farakka project totally? We have completed 2 milestones, right?
- G. Radhakrishna:** There are 2 more milestones; at the end of second year and next is completion.
- ChitreshLunawat:** Our end of the year target for the order book would be around 1000 crores?
- G. Radhakrishna:** Around 1300 crores we are expecting the order book should be there. Order book will be more but work to be executed should be around 1000 crores this time.
- ChitreshLunawat:** So, we will be completing 300 crores this year and 1000 crores would be remaining at the end of the year, okay.
- Moderator:** The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.
- Hardik Jain:** Sir, there is a work in progress of 9 to 10 crores in this year-end. How much more we wish to invest in the CAPEX?
- G. Radhakrishna:** We will be investing another 20 crores.



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- Hardik Jain:** And this will be done in this year?
- G. Radhakrishna:** Yes, this will be done in this year.
- Hardik Jain:** So, fixed asset will increase by a total of 30 crores by the end of this year, right?
- G. Radhakrishna:** Yes sir.
- Hardik Jain:** This CAPEX is basically done for Farakka?
- G. Radhakrishna:** These 9 crores is basically for Farakka only and addition of maybe another 5 crores in this financial year is for Farakka. Those expenses will be written off in the next 3 years itself.
- Hardik Jain:** So, this CAPEX what we are doing will be written off in 3 years?
- G. Radhakrishna:** Yes, in 3 years.
- Hardik Jain:** I think we get some customer advances which are part of current liability. What is the amount of customer advances that we have today?
- G. Radhakrishna:** It is only 2 crore 34 lakhs.
- Hardik Jain:** As per your presentation, most of the projects that are to be completed is in FY20. If we just go by the schedule of date of completion that you have mentioned, the value of remaining work is total 783 crores out of which almost 500-550 crores we have to complete during this year. So, if we conclude, then can we achieve around 400-crore turnover this year because your deadline is mostly you have to complete these projects by this year?
- G. Radhakrishna:** Yes, we have to achieve. There is no other option for us and we will achieve also.
- Moderator:** Next, we have a follow-up question from the line of ChitreshLunawat who is an individual investor. Please go ahead.
- ChitreshLunawat:** Sir, I also wanted to know about the Drone projects. We were targeting around 250 employees I believe for the Drone thing this year. Any updates on what's happening in that area?
- G. Radhakrishna:** Because we were not able to control expenses on that, we have closed that project.
- ChitreshLunawat:** Currently being in the liquidity situation and all the NBFCs and banking institutions which are facing severe liquidity crunch, what is your take on that? Because our fund-based limit is only 50 crores and we are targeting around 400 crores. Could you please guide us on that?



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- G. Radhakrishna:** One good news is that our Purvanchal work is getting settled. We have an amount of around 50-60 crores held up there. We are getting that amount by this September. Because of that only, we are going for additional 500 crores of jobs. With that, I feel we may not have any financial crunch now. We can do it with our own internal accruals.
- ChitreshLunawat:** How much is the bank guarantee for the Farakka project?
- G. Radhakrishna:** It is around 75 crores.
- ChitreshLunawat:** 15%, okay. And who are our bankers currently?
- G. Radhakrishna:** Earlier it was Vijaya Bank, now clubbed with Bank of Baroda.
- ChitreshLunawat:** The limits you told are combining both of them, right sir?
- G. Radhakrishna:** Yes, we are presently having 200 crores with us. Now we have asked for enhancement to 300 crores. The proposal is going today. Maybe in another 1 month, we should be able to get the approval.
- ChitreshLunawat:** Sir, what is the management's view for the next 3 to 5 years? What do you want to achieve? What do you want to do?
- G. Radhakrishna:** We would like to move up and emphasize more on our core competence rather than getting into some other work because there is no change in the government. The present BJP government must be going for more on infra work. With lot of bridges and lot of things they had already announced, with coming onto that, I think we can choose and pick up the jobs rather than going for a competition from now on. This is what I feel. Next 5 years will be a good business for us provided we have this fund based and non-fund based limits more.
- ChitreshLunawat:** Any milestone we have set for us like what we want to achieve, like 2000 crores?
- G. Radhakrishna:** We have today a target of maintaining a turnover between 400 to 500 crores for the next 3-4 years, stabilize ourselves, make our staff to understand what is our view, what are our priorities, understand the system, and then we would like to jump for the next phase of around 750-800 crores, stay there for about 3-4 years and then move further forward.
- ChitreshLunawat:** We will be completing this 512-crore project maybe next year, I mean 1 to 1-1/2 years. So, now are we eligible to directly bid for a project which is 500 crores plus or we still need joint venture?
- G. Radhakrishna:** Our limit should be around 400 crores as of now. That 500 crores job what we got is because of joint venture with Chinese company.



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- ChitreshLunawat:** Correct sir. Just wanted to understand our limit now.
- G. Radhakrishna:** On our own, we can bid projects up to 400 crores.
- ChitreshLunawat:** What is the current status of how much order have we applied? Are we alone in anything?
- G. Radhakrishna:** Not yet because the elections are just over. They are still to settle down. Maybe in another 2 months, we should be able to get a couple of jobs into our account.
- ChitreshLunawat:** So, we have already something in pipeline, okay.
- G. Radhakrishna:** Yes, we have got some 5 jobs in pipeline. We are confident that we will be getting 2 jobs out of those valued at around 225 crores and we are trying for another 300 crores with some other department. So, with that, this year I think that should be enough for us.
- ChitreshLunawat:** And the question was regarding the competition. Earlier you told that one of your competitor was very, very aggressive and was taking away all the projects but now being in the liquidity situation, how do you feel the competition now itself regarding infrastructure projects?
- G. Radhakrishna:** I was telling you that we have the option of now only pick the jobs. Whatever jobs we want, we can pick and then quote rather than going into the competition. Because our liquidity position and all are good, I don't think we will have to go for a competition. If we wait, the jobs will automatically come to us.
- ChitreshLunawat:** That is a very nice situation to be in. so, we can expect PAT margin of around 9% to 10% for this year as well?
- G. Radhakrishna:** If everything goes well, definitely we can expect.
- Moderator:** The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** Sir, we had some outstandings from completed projects from some government institution. What is the current situation and outstanding from which other companies is pending?
- G. Radhakrishna:** By September end, we should be able to get that money back to our account.
- Ashok Shah:** The outstanding which was from some government institution or government project, have we approached any legal arbitration or something like that?
- G. Radhakrishna:** Nothing, we have no arbitration or legal anything as of now.
- Ashok Shah:** What is the figure of this outstanding?



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- G. Radhakrishna:** Outstanding is around 82 crores as of now with us. Out of 82 crores, 43 crores is from Purvanchal which we will be getting by end of September. 32 crores as retention money for the work which will be given only after completion of the work.
- Ashok Shah:** Purvanchal, did we get something during the last 6 months?
- G. Radhakrishna:** We didn't get anything. By September, we will be getting the amount.
- Ashok Shah:** We are following through the legal procedure or it is a normal procedure?
- G. Radhakrishna:** It is an amicable settlement.
- Moderator:** The next question is from the line of Nilesh Karani from Magnum Equities. Please go ahead.
- Nilesh Karani:** I just wanted to understand in the next 2 years or 1 year if you can give us a guideline like how our company will be panning out?
- G. Radhakrishna:** Last year, we had given you a growth of around 15% to 20% is what we had promised but we couldn't do that because execution of one work was delayed. This growth of 15% to 20% last year about 50 crores and the coming year should be around 60 crores. So, we will be adding up at least 110 to 120 crores additionally this year. That means, it should be around 350 to 400 crores this year.
- Nilesh Karani:** How would be our margin outlook like?
- G. Radhakrishna:** EBITDA would be around 13% to 15% and PAT would be between 8% to 10%. So, on 350 crores, around 25 to 30 crores of PAT you can expect.
- Moderator:** As there are no further questions, I would now like to hand the conference back to Mr. G. Radhakrishna for closing comments.
- G. Radhakrishna:** Before we close this session, let me once again assure you that we are here to take the company to the next level and create significant value for all stakeholders by delivering exceptional quality projects resulting in superior shareholder returns in the medium-term perspective. We propose to move forward in a steady manner. On behalf of RKEC, we would like to thank you all for participation in this conference call amidst your busy day. Thank you and have a wonderful time ahead. Jai Hind.
- Moderator:** On behalf of RKEC Projects, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.