



RKEC Projects Limited
H1 FY18 Results
November 27, 2017

Moderator: Good evening, ladies and gentlemen. I am Stanford, the moderator for this conference call. Welcome to the conference call of RKEC Projects Limited arranged by Karma Investor Relations and [0:00:18] ___ to discuss its H1 FY18 results. We have with us today Mr. Radhakrishna Garapati, Chairman and Managing Director and Brigadier G. V. Satyanarayana, Chief Financial Officer. At this moment, all participant lines are in the listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, you may press * and 1 on your telephone keypad. Please note that this conference is being recorded. I would now like to hand the floor to Mr. Radhakrishna Garapati. Thank you and over to you, sir.

Radhakrishna Garapati: Good afternoon, ladies and gentlemen. I am Radhakrishna Garapati, CMD, RKEC Projects Limited. I welcome all of you to our first investor and analyst conference call. It has been a momentous year for us. RKEC Project came out with an IPO on September 25th, 2017, which was [0:01:30] subscribed by 18 times with an overwhelming response from our investors. From a humble beginning 3 decades ago to having the company listed on SME platform of national stock exchange on 9th October, RKEC Group is proud and delighted to get such a great investor support. We thank all of you as also our merchant banker for their valuable support extended for making RKEC Projects IPO a grand success.

Background of the company: Our company was incorporated as RKEC Projects Private Limited on April 01, 2005. We have an overall 3 decades of project execution experience having project teams with vast experience, skilled workforce and state-of-the-art technology plant and equipment. The core business of the company is designing and undertaking construction projects such as bridges, ports, dams, high rise structures, roads, highways and other industrial structures and buildings across India. The company has completed 81 projects worth Rs. 1,049 crores and currently we are working on 7 projects worth Rs. 705 crores. RKEC Project has diversified its projects portfolio by entering into high growth sectors such as defense, highways, railways and ports and the company has leading companies like NHAI, PWD, DGNP, Indian Railways and Ports like Cochin Port Trust, JNPT, Mumbai Port Trust

etc. and other government departments like NWDC, PVVNL among others in our portfolio of clients.

Order book as on 30th September 2017 is 366 crores. Value of bids submitted as on 27th November 2017 is Rs. 220 crores and works worth Rs. 2,000 crores are identified and are in the process of bidding. Over the year, we have undertaken and successfully completed many construction projects in India, covering states of Andhra Pradesh, Tamil Nadu, Gujarat, Orissa, Rajasthan and Maharashtra. In addition to them, the company has expanded its presence to 3 more states Kerala, Uttar Pradesh and Manipur with ongoing projects.

I am happy to inform you that RKEC Projects Limited ranks amongst the top 10 companies for design and execution of marine works in the country. RKEC is a super special class registered contractor with the Ministry of Defense which gives the company unlimited tendering capability for defense projects. The company was awarded construction work of coastal berth in JNPT Mumbai in the month of March 2017, worth 143 crores.

Financial highlights: It gives us immense pleasure to share with you that the company has delivered the best ever results. Despite subdued business environment, RKEC projects achieved the highest turnover of Rs. 200.12 crores for the financial year 2016-2017. As a SME listed company, we are required to declare half yearly result. RKEC's net profit for the first half year of financial year '18 rose 400% to Rs. 10.77 crores compared to Rs. 2.68 crores posted in H1 of Financial Year 2017. Company's total revenue grew by 151% to Rs. 122.88 crores for the first half year ended September 30, 2017, compared to Rs. 81.54 crores posted in H1 of Financial Year 2017. The EBITDA for the first half year financial year 2018 stood at Rs. 19.82 crores compared to Rs. 4.62 crores for the H1 of Financial Year 2017 showing a sequential growth of 423%. EBITDA margin for the first half year 2018 stood at 16.12% and the net profit margin was 8.76% compared to 5.75% EBITDA margin and 3.29% net margin of the first half of financial year 2017. From a shareholders perspective, we aimed to achieve an RoE of at least 20%.

Objectives; what we are trying to achieve: Position RKEC Projects Limited as a diversified and growing player in the infrastructure space poised for accelerated growth. Position RKEC as an emerging company amongst analysts and investor community. Generate tracking interest amongst the analysts and gain positive endorsement. Improve quality of investors by increasing investor spreads. Increase liquidity in the staff. Achieving fair valuation.

You may now ask questions one by one. Kindly tell your name and organization you represent. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of G. S. Vivek from GS Investments. Please go ahead.

G. S. Vivek: Sir, just wanted to know about the opportunity size for our company especially in field of marine works and when do we expect more orders, sir?

Radhakrishna Garapati: As of now, we have quoted for works amounting to 220 crores. In addition, we have identified for jobs amounting to 2,000 crores which are under pipeline, for which we are qualified to quote. So maybe in next 3 months, we should be able to get some good and sizeable works, worth around 600 to 800 crores. Out of this, the marine works are likely to be around **800** crores.

G. S. Vivek: Okay sir. So these tenders are out for this and we have already participated in it, I mean we are going to participate in it sir?

Radhakrishna Garapati: Participated for about 220 crores jobs and the other works are in pipeline. We are participating for all other works in which we are technically qualified and we have the capacity to do the same.

G. S. Vivek: Okay sir. Are you participating in any of the Bharatmala road construction Projects or are we confining ourselves to the marine works only mostly?

Radhakrishna Garapati: We are already into Bharatmala program. Award of JNPT job in Mumbai is a part of that and the connected works are also going to be done by us. In addition, we are trying to form a JV with another company, and trying to bid for Sagarmala Projects.

G. S. Vivek: Okay sir. Opportunity size is quite large enough for our type of work in India?

Radhakrishna Garapati: Opportunity is quite large enough as of now, in view of recent announcement by the Govt of India for development of Infrastructure.

G. S. Vivek: What is the unique USP for our company? For example that barge which we are having, we came to know that only few companies are having this barge.

Radhakrishna Garapati: Unique USP of our Company, is that of having an In House Design Team and a dedicated technical team for execution of projects. We are one of the few companies having a Jack Up Barge of 500 MT. There is lot of demand for these barges as of now. We have the ability to manufacture our own equipment including such barges.

G. S. Vivek: Okay sir. And sir defense foray, this drones and other things what exactly is that and will it contribute to our topline, bottomline in time to come?

Radhakrishna Garapati: As of now, we are only in the stage of R&D. We may not be able to express out topline and bottomline for that. But maybe by the end of this year, we should be able to come out with some figures.

Moderator: Thank you. We will take the next question from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Sir I was under impression that there was 1,100 crores worth of orders that we have already bid for and the outcome of which is still pending. So was my understanding correct or no?

Radhakrishna Garapati: Yeah. It was correct. However, some of the bids have got postponed. As i did mention, we have bid for Rs 220 Crores and another Rs 2000 Crores worth of jobs are in the pipeline. So we are trying to check ourselves on having good clients for further bidding. The results of which may be given out in the next 2 to 3 months.

Hardik Jain: And sir, to bid for such projects, is the capacity that we have, if you want to execute such orders and we are expecting good orders in this year, do we have to invest something new or we have enough capacity to actually...

Radhakrishna Garapati: At present, we have the working limits of around 135 crores from the bank. So we are seeking to enhance this to Rs. 350 crores by providing collateral.

Moderator: Thank you. We will take the next question from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: I just want to understand, sir, little bit of the EBITDA margin. Last year, it was around 12% in 2016 which improved to 15% in 2017 and now it has gone around 19%. So this is a very good number, sir, for our construction company. So can you highlight what exactly we do where we can get such a good margin?

Radhakrishna Garapati: See, up to September 2016 we had many issues of purchase of equipment and loans. After September 2016, all the term loans have been cleared and there is no debt. That was the main reason why you find an increase in this EBITDA margin.

Pritesh Vora: No. But that is why I am saying below above the line item. Finance cost comes below the EBITDA, right?

Radhakrishna Garapati: Yes.

Pritesh Vora: So what are you doing, sir, which can fetch you 19% of EBITDA margin?

Radhakrishna Garapati: See, what happens is that the three works which you got in the last year, that is one at Cochin Port Trust, one at Purvanchal and one at Vizag, all these three works have come at a time and two of these works are at a closing stage. Normally, in the government related works, they are very strict in releasing payments in the initial stages of work. They start releasing these payments in the second half of the year. That is why you find a little bit more EBITDA during the last financial year.

Pritesh Vora: But our first half which is completed, 18, that has led to 19%. So that argument if I take it forward, your second half of year, further EBITDA will improve?

Radhakrishna Garapati: See, it depends sir. When we start new works again, the expenses will be that much more. In view of some of the works coming to a close, the revenue is comparatively more. As you start completing the job, most of the payments get released. That is the reason you find that there is an increase and decrease.. At the time of completion of the project, you find EBITDA increasing. At the time of starting of the project, you find less EBITDA.

Pritesh Vora: No. But if I consider, generally how much time it takes to complete our project in your company?

Radhakrishna Garapati: It depends on the project size and between and may take between 2 to 3 years.

Pritesh Vora: But you are doing something commendable job because you are running a 19% EBITDA margin in this construction industry, you must be doing something unique to undertake such projects, I mean is it the marine exposure gives you higher margin?

Radhakrishna Garapati: Like i mentioned before, we have some unique advantages. We do have the ability to design and manufacture our own equipment in addition to having in house designing of marine projects. As of now, we have our own equipment which is a great advantage for undertaking the works, as of now, for this size of turnover.

Pritesh Vora: So sir, like say for example this year you did 120 crores of job, so that 120 crores how much if I want to bifurcate between marine, road and other project sector wise?

Radhakrishna Garapati: Marine works would be around 60% to 70%, and the balance for other works.

Pritesh Vora: And will that 60%-70% of marine work will continue to do like that or it will come down over a period of time?

Radhakrishna Garapati: Yeah. Over a period of time when we are trying to get into other verticals, this might come down sir.

Pritesh Vora: So sir, suppose you mentioned around 330 crores of job as of now with you, so how much time you will take to execute this job, will it be completed in one year, two year or three year?

Radhakrishna Garapati: This present works in hand, should be completed by Sep 2018.

Pritesh Vora: So you will be doing up to 300 crores of revenue by next September?

Radhakrishna Garapati: Yes.

Pritesh Vora: And then you have 2,000 crores of job which is on your balance sheet, right?

Radhakrishna Garapati: Yeah.

Pritesh Vora: For 100 crores job, what sort of equipment you require to put a CAPEX in?

Radhakrishna Garapati: It roughly ranges between 10% to 15%, sir.

Pritesh Vora: 10% to 15% of the order job value you require CAPEX.

Radhakrishna Garapati: Yeah.

Pritesh Vora: And do you expense out that equipment in one project or do you depreciate over some.....

Radhakrishna Garapati: It will depreciate over 5 to 7 years.

Moderator: Thank you. We will take the next question from the line of Pranay Mehta from HDFC Securities. Please go ahead.

Pranay Mehta: Can you give us some guidance and throw some light on our future revenue and future profits in 2018-19, sir?

Radhakrishna Garapati: 2018-19, we will be doing a revenue of around 350 crores as projected earlier.

Pranay Mehta: Okay sir. And our EBITDA margin, PAT margin would remain about same or you are looking for a higher PAT margin or a lower PAT margin because you are thinking of diversifying into other sectors and since marine has such a high margin, therefore do you feel our margins may come down?

Radhakrishna Garapati: See, we have a good project team headed by good project management. At present we are working only on the government projects and we are selective on taking up on any new project.. As I informed earlier to all the investors, our EBITDA will remain between 12% to 16% and would continue at the same levels as of now because we are debt-free. The PAT also would also continue at the same levels between 6% to 8%.

Pranay Mehta: Okay. And for our total income for this year should be about, can we assume about 250 crores?

Radhakrishna Garapati: Yes. We can assume to be having 250-270 crores by end of March.

Pranay Mehta: And sir there is a drop in other income, any particular reason?

Radhakrishna Garapati: We have sold out 2 machines during the last fin year and hence the drop in other income.

Pranay Mehta: So there was one off in that session?

Radhakrishna Garapati: Yeah.

Moderator: Thank you. We will take the follow up question from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: Sir, you have reported some 3 crores of one off exceptional income, you have mentioned it is returned as a....

Radhakrishna Garapati: These are IPO expenses.

Moderator: Thank you. We will take the next question from the line of Pratyush Shah from Tricom. Please go ahead.

Pratyush Shah: Sir one question I have is and I hope you don't mind me asking that, most of the SMEs what ballpark figures that we talk with the lead bankers, the entire IPO expense comes to somewhere around 50 to 70 lakhs. But it seems in our case it has come to around 3 crores if I am not wrong. So what is the reason for such high IPO expense?

Radhakrishna Garapati: I think, this question, you must ask the merchant banker. That was the agreement what we had with him and accordingly the same expenses were reported.

Pratyush Shah: Understandable. Sir, I mean also in your order pipeline, can you help me in breaking down what is the current run rate in terms of the pipeline for only the marine works?

Radhakrishna Garapati: It is 750 crores what we will be quoting for marine works.

Pratyush Shah: Yeah. Sir you mentioned the new verticals for growth being defense, railways, ports and others and of which I want to understand what we are looking for in defense and railways. What kind of work you are looking for in that?

Radhakrishna Garapati: There is no new vertical in defense. We are already executing works in defense and railways. The new vertical what we are going to work it out is only oil and gas and roads.

Pratyush Shah: So that is oil and gas pipeline division?

Radhakrishna Garapati: Cross country pipelines and then roads.

Moderator: Thank you. We will take the next question from the line of Ruchi Parekh from Anand Rathi. Please go ahead.

Ruchi Parekh: Sir, I just wanted to know how are you planning for working capital days as it has increased if I see from last year, probably post GST. So how do you think, will it normalize in the coming quarter?

Radhakrishna Garapati: There has been a delay for release of payments post GST. Payments have started being released and flow is better now. The working capital limits are basically dependent on the bank guarantee limit and LCs.

Ruchi Parekh: Days. So your days sir, so it has increased your...

Radhakrishna Garapati: Mostly we are working for all government companies only. So our timeframe for getting the payments from the department is maximum 15 to 30 days, other than retention money and any other recoveries that they make. So working capital will generally be realized within maximum 15 to 30 days from the government works.

Moderator: Thank you. We will take the next question from the line of G. S. Vivek from GS Investments. Please go ahead.

G. S. Vivek: Number one sir, just wanted to know about the bandwidth, do we have the bandwidth in terms of employees, manpower, [00:26:11] _____ for execution of the projects which we are propagating and what has been the progress in the oil and gas pipeline sir?

Radhakrishna Garapati: Sir, we have a strong team of about 300 employees which include about two third having technical qualifications. We have the bandwidth of handling about 10 to 12 projects simultaneously against which we are presently engaged in execution of 7 projects. In the next couple of years, we hope to increase our bandwidth to 15 to 20% with strengthening of project management capabilities. For this what we are doing is that, we are engaging some agencies to train our staff for the new verticals that are going to come up. We are engaging fresh graduates as well as Engineers who are 2 to 3 years old in the company. Both these teams would be going through training sessions.

G. S. Vivek: Okay sir. This we had mentioned at the time of IPO about our foray into oil and gas pipeline sector, new vertical which we are targeting and basically any tender which we have participated over there and....?

Radhakrishna Garapati: We have already participated in one project as a joint venture consortium with Al Mauasar, Iraq based company. We have quoted for works amounting to 116 crores.. We may expect the result in one to two months.

G. S. Vivek: Okay sir. And these 14 jetties and other tenders which have come out and which are coming out, we are technically qualified to execute those tenders, sir?

Radhakrishna Garapati: We are technically qualified to execute jobs up to 400 crores as of now.

G. S. Vivek: Okay sir. And competition basically for us the major competitor for us is ITD Cementation and which are the other major competition, because L&T might not be focusing on 400 to 300 crores worth of jobs?

Radhakrishna Garapati: ITD of course and now you have got Simplex. Four companies are there which will be our competitors.

Moderator: Thank you. We will take the next question from the line of Kunal Banwari from HDFC Securities. Please go ahead.

Kunal Banwari: I just had a question regarding the CAPEX requirement that will be required in the coming 3 or 4 quarters, given the bidding pipeline. Sir, is there a significant need for increasing the CAPEX?

Radhakrishna Garapati: Since we are entering into the oil and gas sector, and if our revenue starts growing more than 300 crores, will definitely require CAPEX of at least around 15 to 20 crores, is what we are envisaging for the next financial year.

Kunal Banwari: Okay sir. And sir any plans on taking some further debts on the company's books?

Radhakrishna Garapati: As of now, nothing sir.

Moderator: Thank you. We will take the follow up question from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: As in the balance sheet we can see there is no debt and the CAPEX requirement is also not very high and we will be generating lot of cash and you also mentioned in your opening remarks that you are very much focused of RoE of about 20% and enhancing shareholder values, so is there any thought on dividend distribution policy that you have thought about, or is there any laid down policy of the company?

Radhakrishna Garapati: We have not laid down any policy sir, but however for the first half year results, we have already declared an interim dividend of 10%. Shall have a policy worked out after seeing two to three more quarter results.

Moderator: Thank you. We will take the next question from the line of Sachin Shetty, an Individual Investor. Please go ahead.

Sachin Shetty: Sir, my question is you quoted something 700 crores of marine order, out of that how much in oil and gas pipelines you are supposed to quote, you are looking for, you will diversify your construction, oil and gas pipelines?

Radhakrishna Garapati: Yeah. We have quoted only one work as of now.

Sachin Shetty: Okay. Sir my second question is, in your IPO drafts, you mentioned that Cochin something that multiyear liquid terminal you are supposed to complete it on 12th of February 2018. So it is in final stage or it will...?

Radhakrishna Garapati: It is in the final stage. We have already completed around 85% of the jobs. It is in the pre-commission stage now. All the civil works have been completed, mechanical works are under pipeline now.

Sachin Shetty: Okay. So after completion of job, you are taking maintenance or something.....

Radhakrishna Garapati: Actually, there will be a two-year maintenance for that project.

Sachin Shetty: So, if I look this number, 217 crores for Cochin, what would be the maintenance this one sir, charges?

Radhakrishna Garapati: It will be roughly around 2%, i.e around 4 crores.

Sachin Shetty: Okay. So every job you are quoting maintenance charges?

Radhakrishna Garapati: Yeah. Every project has a maintenance cost. The maintenance cost will be only for EPC projects, which contain complete project like Mechanical, Electrical, Piping etc.. If it is only a jetty, then maintenance cost will be only 0.5%.

Sachin Shetty: And sir one more, you have quoted some electrical jobs, so that is something big one. So that electrical, in Uttar Pradesh I meant to say, construction of this one sir. Electrical jobs also you have LPs which you are doing?

Radhakrishna Garapati: Yes.

Sachin Shetty: So, that is already completed in this one Uttar Pradesh?

Radhakrishna Garapati: That is in process of being completed by December end.

Sachin Shetty: So you are also taking that construction of towers and EHV and HV lines you are taking?

Radhakrishna Garapati: Yeah. We will be quoting for an additional work amounting to 100 crores at the same location. So probably by December end, we will know the result of that project.

Moderator: Thank you. We will take the next question from the line of Satyesh Bhatt, an individual investor. Please go ahead.

Satyesh Bhatt: My question is on the road works, in Bharatmala or any of those areas, have you gone for any or is there any tendering which you will be bidding for? I am looking it specifically first, the next half year, that is H2. Is there anything that is expected to happen in the H2 or are you more looking at in the next?

Radhakrishna Garapati: Recently, in Vishakapatnam itself, we have quoted for one work of the Sagarmala road as a working partner only, our name is not included in that. But if they get the job, we will have a sizeable amount in that job.

Satyesh Bhatt: Okay. So just as a followup question, so in future, are you intending to do single bidding in the sense like not as a joint, but you intend to bid for yourself for the road works project because what I would see is Bharatmala or any of those, that could be a great opportunity going forward over the next 18 to 24 months. So is that your intention?

Radhakrishna Garapati: See, for the road works and all as of now, we don't have much experience. That is why we are interested in going with either a JV or a consortium with some partners with like-minded people and we are trying to go further. In Vizag, I accepted that and if at all if they get the job they are going to give us a sizeable work and Vizag being our base location, we can have a good control over the job.

Satyesh Bhatt: Okay, makes sense. Until we gain enough experience, just go with the joint.

Moderator: Thank you. We will take the next question from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: Just a followup question. You mentioned that EBITDA to be maintained between 12% to 16%. Now that is around 200 basis points higher than the Simplex or 400 basis higher than ITD Cementation. So why do you think, your costs are more controlled? How can you achieve such a high EBITDA margins?

Radhakrishna Garapati: See, our strengths are mostly on, own in-house design team and technical team having the ability to execute the projects. That is a major strength that what we have...

Pritesh Vora: But if I consider say AFCONS, AFCONS were doing EBITDA margin of 9%-10%. ITD Cementation was doing EBITDA margin of 7% to 8% and Simplex is doing EBITDA margin, off late they are picking up and they were doing around 11%. So when you say 12% to 16%, I consider EBITDA at 14%. That is a very commendable job. So I want to understand sir, what do you do differently than those of competing player which can give you a higher EBITDA margin?

Radhakrishna Garapati: I can compare with ITDC. . ITDC when you see, they hire all the floating equipment, whereas in our company, we design our own floating equipment. We build, construct, and then start using it which reduces cost abnormally. That is the main difference between ITDC and our Company. Have no idea of other companies.

Pritesh Vora: And how about AFCONS sir. AFCONS is reporting around 9% to 10% EBITDA margins. How can you differ from AFCONS?

Radhakrishna Garapati: Their working, sir we have first thing is our in-house design and engineering capabilities, even AFCONS has approached us for one of the project to design their project. So that is the strength what we have within ourselves. Then we have good project management capabilities to ensure timely execution of the projects. And then the third one is good financial strengths All these things help us to be a little bit higher than all other companies.

Pritesh Vora: Okay. So you employ a good project management skill to complete the project in time, that saves you cost and money, I mean that saves you time and money. I mean is that the correct way to...?

Radhakrishna Garapati: Not only employing good project managers, but good monitoring systems from head office on the project. The grip that I have on the project is a good step where we will be able to complete the projects on time.

Pritesh Vora: And right now you are able to manage it because our revenue is small, I say we did only 120 crores for 6 months, so as the project size grows, as number of, how many size you work at, as the number of size grows will you able to find tightly control this operation?

Radhakrishna Garapati: Yes, that is the reason for our growth. We have maintained a slow growth, wherein I will just tell you for us to come from about 100 crores to 200 crores it has taken a period of around 2 to 3 years. So I have been training these engineers so that they become capable for taking on any new projects. So that is another reason as to why from now on to next span across, we are going to take around 3 to 5 years. So that whatever the people are there with us, they are trained to become in-house project managers, who knows our strength, who knows how we monitor the projects.. So we give more preference to our employees who are in the pipeline.

Pritesh Vora: And you said you work with 300 people. So I suppose lot of worker will come from contractor or you hire them directly?

Radhakrishna Garapati: No. These people are hired by us and they are on our rolls. These are all permanent employees of the company. The labor contract is different.

Pritesh Vora: So 300 people are mostly diploma engineers, engineers kind of category of the people?

Radhakrishna Garapati: Yes.

Pritesh Vora: And the workmen you hire from the labor contractors?

Radhakrishna Garapati: Yeah, from a labor contractor we hire and then do the job.

Pritesh Vora: So how they are incentivized. Are they hired based on number of days work or completion of work, how you manage them?

Radhakrishna Garapati: Labour is hired based on the quantum of work.

Pritesh Vora: Okay. So you pay them based on the quantum of work?

Radhakrishna Garapati: Yeah.

Pritesh Vora: To the labor contractor?

Radhakrishna Garapati: As per the labor contract.

Pritesh Vora: And the labor contractor then will pay through the laborer on the daily wages basis? Is that the correct way of looking at it?

Radhakrishna Garapati: Yes. The same way we follow it up sir.

Moderator: Thank you. We will take the next question from the line of G. S. Vivek from GS Investments. Please go ahead.

G. S. Vivek: Sir this was regarding our focus on private sector. Are we not focusing on private sector at all, because I was going through website, I believe we did some good work for Essar Port and Adani Port in Gujarat and lot of private sector projects are coming up like Gangavaram and Karaikal, another places and what is the opportunity size over there and what about that and other private sector clients which we might be targeting sir?

Radhakrishna Garapati: We are not concentrating on any of the private sector. If you see our results of earlier 7-8 years, they were not so good as the Private Parties did not honor us as much or they don't take us properly along with them.

G. S. Vivek: Okay sir. And sir about this Andhra Pradesh having a long coastline and one of the most dynamic Chief Minister Mr. Naidu is over there, any step he is taking to develop that coastline which can be of help for our company?

Radhakrishna Garapati: Yeah. There are lot of projects that are going to come up there. They are all in the pipeline, maybe we will be able to get some of the project, but as of now nothing is there. But water front and marine front, lot of works are coming up in the capital region itself. So we can expect good job from them.

G. S. Vivek: Gujarat has been the state which has been doing lot of work in that respect, I believe?

Radhakrishna Garapati: Yeah.

G. S. Vivek: So like Gujarat, other states are also coming up and Sagarmala what is that and sir how can we exploit our Sagarmala project sir?

Radhakrishna Garapati: Sagarmala, there are lot of projects which are coming up. In Goa, there are about 6-7 jetties which are coming up which will be tendered shortly. Like that even in Pondicherry also, some projects are coming up, sir. So will have a good work in those fronts.

G. S. Vivek: Okay sir. Because I believe that in Gujarat and Maharashtra there is maritime board which is helping out the respective state government in the port, so this maritime boards are not there in Andhra Pradesh and Karnataka and other places sir and...

Radhakrishna Garapati: It is not there sir, it is only the ports, the local state government ports which are looking after these jobs as of now. Gujarat has got a Gujarat Maritime Board which is floating about 8 tenders as of now. Two tenders are on the pipeline which we will be quoting on 30th of this month and we have a good chance in that.

G. S. Vivek: Yeah. And this RO- RO in Saurashtra which was inaugurated by Prime Minister Modi recently, were we able to Essar bid the project I believe where we approached for this type of job sir because that I believe its opportunity size quite large.

Radhakrishna Garapati: Yes. We didn't assist yet with Essar, but now the present jobs which are there, 6-7 jobs we are seriously working on them.

G. S. Vivek: Okay sir. Similar sort of work we can expect from Andhra Pradesh also, in time to come?

Radhakrishna Garapati: Yeah. Andhra Pradesh as of now, we don't find much improvement on the port sector, but there is one private port which is going to come up. We will have to wait and see which company takes up the work and accordingly we will go ahead otherwise, we are not interested in quoting for parties, which doesn't make proper payment.

G. S. Vivek: Yeah, I believe our company's strength is prompt payment, even the advance we have been able to get, that is really commendable. How come you were able to get the advance from the customer's, sir? That is very rare for...

Radhakrishna Garapati: As per the condition of the contract.

Moderator: Thank you. We will take the next question from the line of Akhil Bhandari, an Individual Investor. Please go ahead.

Akhil Bhandari: Just a question, I mean if you can give some guidance about the interest payment for financial year 2018 as well as 2019?

Radhakrishna Garapati: Sir, earlier if you see on March 2017, the interest component which includes bank guarantee commission, then the interest charges on LC, other things is around 8 crores whereas in this financial year, it is reduced to 2.5 crores only. So because the advances from the clients are reducing, that is why the interest rate is reducing. Now when we get the new projects, again we get advances from them and maybe we have to pay some interest to them. So this interest component varies from the quarter to quarter sir.

Akhil Bhandari: Any ballpark figure like for 2019, like how much interest cost you expect, any figure?

Radhakrishna Garapati: It will be less than what has been reported now sir because we have not used any CC limit and we are in excess of cash. So we may not be able to, it will not grow more than what has been given for the first half year.

Akhil Bhandari: Sure and even like our size of operation increases, the interest component and all would be in the same range, I mean they will not go proportionately, right?

Radhakrishna Garapati: Financial year 18, it remains the same.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: Sir, what is our net debt as of now, what is the total debt that the...?

Radhakrishna Garapati: Net debt is only around 1.5 crores term loan, sir

Pritesh Vora: And working capital?

Radhakrishna Garapati: There is a CC limit of 15 crores which we are not using it as of now but we have the CC limit of 15 crores.

Pritesh Vora: So you don't take any working capital loan, I mean you have just taken the CC limit, right?

Radhakrishna Garapati: No. The working capital loan is we take it from the bank guarantee limit. Each client gives us a 10% mobilization advance. So we take it from the client only as a mobilization advance.

Pritesh Vora: So you don't require any working capital, as you said working capital is 15 crores sanction. Suppose you grow your revenue from 200 crores to 350 crores or 500 crores, I don't know. So will that require some more working capital loan or how do you fund this?

Radhakrishna Garapati: The working capital sir, see each project whenever we get, the client gives us 10% mobilization advance. So the same amount is used as a working capital. We don't raise further working capital as of now unless we go into a new vertical where some CAPEX is required, otherwise as of now with this project what we have, we don't require any additional working capital there.

Pritesh Vora: So you are able to manage within the client payment, is it?

Radhakrishna Garapati: Yeah. Wherever we are able to manage with the client's mobilization advance and with the equipment what we have, we are able to manage within that itself.

Pritesh Vora: That is very commendable sir. Thank you very much.

Radhakrishna Garapati: Yeah. Only once we go into new verticals then we maybe requiring, as I said in the beginning itself, maybe around 10-15 crores, when we go into the new verticals we maybe requiring that much of amount, but otherwise we will be able to manage with this itself.

Moderator: Thank you. We will take the next question from the line of Manish Shah from Comgest Singapore. Please go ahead.

Manish Shah: Sir, trade receivables are 67 crores, it is almost 6 months of revenues?

Radhakrishna Garapati: Sir see, the government of India has started this GST in the year June 2017. Because of the GST, the client for which we are working we are not able to raise the bills because there is lot of confusion. Hence the receivables rose into 67 crores. Otherwise as of now, we have almost realized most of the receivables from them. The 3 months we had a tough time for receiving this payments, but as of now we are comfortable and we have realized almost more than 50-55 crores has been realized now.

Manish Shah: Sir the inventory figure has gone down between end of March and end of September despite turnover being strong.

Radhakrishna Garapati: These works what I was telling is, they are coming to the end sir. As we keep starting using these materials, the inventories will automatically come down sir.

Manish Shah: Okay. So in the beginning you said that in the second half as the work gets completed, you start realizing more funds from the government or from the customer and that was the reason for the higher margins. But we are still in the first half, this September, so this is still a low activity period.

Radhakrishna Garapati: Second half, though we will be realizing more payments under present work, but we are also trying to get some new jobs which will be in pipeline. So the new jobs will attract more expense than the old jobs. So that both will compensate and will give the same results sir.

Moderator: Thank you. We will take the next question from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: This question about the receivables, which is half of your revenue, so how do you manage these payables, I mean you need to pay to your level contractor which is every month or every fortnight, I don't know and your payment to machinery CAPEX and all that. So if this 6 month of receivables is not received, how do you able to manage within the 15 crores of working capital?

Radhakrishna Garapati: See, this problem of GST is not one man's problem, sir it is a problem for everybody. So when we understood the client, our labor and our supply, everybody have understood same and they waited for us. And we are good pay masters, we have never delayed the payments to any of our suppliers other things when we could explain to them that this is the problem, they said okay we will wait, there is no much issue. Accordingly we could manage the issue and we have used only the CC limits of 15 crores at the time because of that.

Pritesh Vora: No, but trade payables is only balance 30 crores, so you have still shortfall of 37 crores between trade receivables and trade payables. So how you will fulfil that? I mean, I have not understood this point well. So if your payment standing is only at 30 crores and receivables is

67 crores, so how do you mismatch that 37 crores and your CC limit is only 15 crores. So how do you manage all that?

Radhakrishna Garapati: Yeah. We had asked some of the people to wait for some more time and we have issued some LCs for some of the parties. There is an LC Limit which we are using for about 20 crores. The 20 crores has been utilized during that period. Some of the parties which are there, the LCs were issued which didn't reflect in this balance sheet.

Pritesh Vora: So this is only a temporary problem you are saying?

Radhakrishna Garapati: It is only temporary sir. Now all payments are realized. There were more than 50 crores has been realized by us.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Radhakrishna Garapati: Before we close the session, I think I have clarified all the investors most of the questions. And if any questions are there which are not understood by you or answers given by me are not understood, you are at liberty to call at the office and get the things clarified from the office. Before we close the session, let me assure you that our team is cognizant of leading the growth path by delivering exceptional quality projects resulting in superior shareholder returns in the years to come. Looking at the company's strength, capabilities and 2 years of valuable experience, expertise and expansion plans exclusively in infrastructure projects, we are here to take the company to the next level and create significant value for all company stakeholders. And on behalf of RKEC, we would like to thank you all for your participation in the conference call. Thank you for listening and have a great time ahead. Thank you sir.

Moderator: Thank you very much. Ladies and gentlemen, thank you all for being a part of this conference call. If you need any further information or clarification, please email at pratham@karma-ir.com. Ladies and gentlemen, this concludes your conference for today. Thank you for using Chorus Call Conferencing and you may now disconnect your lines. Thank you.