



RKEC Projects Limited
H2 FY18 Investor & Analyst Conference Call
8 June 2018

Moderator: Good evening, ladies and gentlemen, I am Aniket the moderator for this Conference Call. Welcome to the second Investor & Analyst Conference Call of RKEC Projects Limited arranged by Aaryana Matasco to discuss the company's H2FY18 & Financial Year ended March 31, 2018 results.

We have with us today Mr. Radhakrishna Garapati – Chairman & Managing Director, RKEC Projects Limited and Brigadier G S Narayana– Chief Financial Officer, RKEC Projects Limited.

At this moment all participants' 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: Thank you. Good afternoon, ladies and gentlemen. I am Radhakrishna Garapati, CMD of RKEC Projects Limited. It is my great pleasure to welcome you all again for the investor and analyst conference call to discuss RKEC Projects' financial performance for the last financial year and second half of financial year 18 and also share with you our growth plans and strategy going forward.

Financial year 2018 was very important year for us, as RKEC Projects was listed on SME platform of National Stock Exchange and touched Rs. 400 crores market capitalization within 100 days from the listing and delivered strong equity returned for our esteemed investors and shareholders. Company got enlisted for Andhra Pradesh and Orissa State Government as Special Class Civil Contractors during the financial year 2017-18. RKEC along with JV Partner CQCE China was declared as L1 for the bid submitted to NHAI for the construction of four-lane Bridge over river Ganga, at Farakka, West Bengal.

We are planning to execute the project from both sides of the river Ganga simultaneously. As such this project will be equal to two projects of our normal size. The work is due, to start after monsoon. The order book position of the company is expected to touch Rs. 1,300 crores during the financial year 18-19. Projected turnover for financial year 18-19 is approximately

Rs. 300 crores. As you are aware RKEC Projects Limited is a construction Company with over 32 years of experience, specialized in the business of Marine works and Bridges.

The company has so far completed 83 projects across India worth Rs. 1,650 crores. Company is presently handling 9 projects worth Rs. 1260 crores across India. Work done for the financial year 2017-18 is Rs. 240.77 crores. Balance work as on date is Rs. 250.78 crores. Confirmed order book for financial year 2018-19 is Rs. 826.16 Crores. Bids submitted Rs. 560.89 crores, expected success would be around 50%. Bids under submission are Rs. 1,384.65 crores, expected success should be around 30% to 40%. Bids submitted for ADS verticals is Rs. 28 Crores plus awarded so far is Rs. 8.3 Crores.

Financial highlights. It gives us immense pleasure to tell you that the company continues to achieve and retain strong financial performance during the financial year 17-18 also. The company's consolidated revenue for financial year 2018 grew 20.3% to Rs. 240.77 crores compared to Rs. 200.12 crores for financial year 17. We had projected a growth of 20% to 25%, which we did achieve. Profit after tax for financial year grows 57.46% to Rs. 20.25 crores compared to Rs. 12.92 crores posted in financial year 17.

Company's turnover for second half of financial year ended 2017-18 stood at Rs. 117.28 crores compared to Rs. 123.48 crores posted in H1 of financial year 18. The net profit for the second half of financial year stood at Rs. 9.57 crores compared to Rs. 10.77 crores posted in H1 financial year 18. The growth in turnover was affected by an unpredicted delay in handing over the site at JNPT Mumbai.

It is my pleasure to inform you that the company had distributed interim dividend of 10% during November 2017 and a final dividend of 10% is recommended by the board. Company had aimed to achieve an ROE of at least 20% and has achieved 40%. RKEC's net profit for financial year 2018 rose by 57% to Rs. 20.39 crores compared to Rs. 12.92 crores posted in financial year 2017. The company's total revenue grew by 20.31% to Rs. 240.77 crores for the financial year 18 compared to Rs. 200.12 crores posted in the financial year 2017.

The EBIDTA for the year ended financial year 18 stood at Rs. 39.47 crores compared to Rs. 31.39 crores for the financial year 2017 showing a sequential growth of 33%. The EBIDTA margin for the financial year 2018 stood at 16.45% and the net profit margin was 8.68% compared to 15.7% EBIDTA margin and 6.55% net profit margin of financial year 2017.

Company goals. To stay strong in the core of competent area of marine structure and bridges and improve the marketshare in the segment. To diversify into the areas such as Oil and Gas, specialized buildings and 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:

Optimized operational efficiency by enhancing the project execution capabilities and efficient project management. It helps us drive benefits of timely completion of projects, client satisfaction, gain good reputation and repeated project orders and leads to improvement in operating margins.

Capture the industry growth potential. Infrastructure is a key driver for Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from government for initiating policies that would ensure time bound creation of world class infrastructure in the country. RKEC Projects is well positioned at that point to take advantage of the huge potential and growth opportunities.

Expand and diversify into new geographies. The Company is expanding its operations and presence across various states. Our diversified project portfolio provided the Company with hedge against risks of business concentration in limited geography.

Retain and attract talent. Employees are the most important force behind healthy organization and phase of growth. Hence our focus is on constantly improving health, safety, skill and provide conducive work environment which helps company to have a lower attrition rate. We go for asset building by striking a balance between rich profile of owning versus hiring.

Resources and Capabilities. Our key strengths and Competitive Edge 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 , Long term relationship with Clients, High quality cost effective project delivery capabilities, Timely completion of projects, Reasonable Asset base for the size of the Company.

Industry outlook opportunities. Increased government focus on sector reforms, Infra development and spending. Expansion of key industry sectors like power, steel, petrochemicals, telecom and Real estate and other. Infrastructure development across the country. Technology and innovation as key drivers of the growth. We believe India's construction industry is expected to continue to grow at strong rate over the next decade. Growth will be underpinned by stable government support for infrastructure development as well as expanded private sector involvement.

India's construction industry is expected to see an average growth of over 6% in the next 10 years. Strong economic growth in India boosting the government fiscal position and encouraging private investment will also provide support for construction investment and activities. Innovative initiatives of government will leverage on hybrid annuity model etcetera wherein government commitment for higher volume of business is getting opened up.

Risk factors. Uneven flow of jobs coupled with resource allocation. We are mitigating this risk by taking up short duration jobs including subcontract etcetera. Stringent credit norms being insisted by banks; in this case we have opened up dialogue with banks and other NBFC banks and other financial institutions. Increase in price of steel and fuel. Delay in release of dues by Clients; constant follow-up with clients being done. Due diligence strengthened for selection of clients in future.

Thank you, gentlemen. The floor is now open for question-and-answer session. You may now ask questions one-by-one. Kindly tell us your name and organization you represent.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of A M Lodha from Sanmati Consultants. Please go ahead.

AM Lodha: I have two questions. Just I wanted to know the order book position as on date?

Radhakrishna Garapati: Rs. 826 crores.

AM Lodha: Another we had one order with Chinese joint venture the Rs. 525crores, we were in L1 position, so that order has been confirmed?

Radhakrishna Garapati: Yeah, it will be confirmed in few days. We have not taken the order. It will be confirmed in another few days which as it have gone to Ministry of Home Affairs for security clearance.

AM Lodha: Relating to that, is there another joint venture with the Chinese? Have we bid any other orders with that company also in addition to this Rs. 525crores?

Radhakrishna Garapati: No. As of now there is only one bid we have done.

AM Lodha: In addition to the profit sharing arrangement with the Chinese partner, we shall have to pay royalty on this?

Radhakrishna Garapati: It is on a profit sharing ratio.

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

Hardik Jain: Order book you mentioned is Rs. 826 crores which is unexecuted part. Does this Rs. 826 crores include the Rs. 500 crores order that we got with the Chinese JV?

Radhakrishna Garapati: Yes.

Hardik Jain: So, Rs. 500 crores is including in it?

Radhakrishna Garapati: Yeah, including that.

Hardik Jain: How many number of projects does this Rs. 826 crores stand for?

Radhakrishna Garapati: Old projects are around five projects and new projects are three.

Hardik Jain: **Five** plus three, okay total eight projects totaling Rs. 826 crores?

Radhakrishna Garapati: Nine projects, 6 plus 3. Old projects are around Rs. 250 crores, new projects are Rs. 521 crores, Rs. 47 crores and Rs. 7 crores

Hardik Jain: Out of this Rs. 826 crores, how much percentage would be marine projects and roads, if you can bifurcate?

Radhakrishna Garapati: Marine projects would be around Rs 200 crores, out of Rs. 826 crores balance.

Hardik Jain: In the last call you had mentioned that you had bid with some UAE JV for gas pipeline link project. What is the update, sir?

Radhakrishna Garapati: We are not successful in that.

Hardik Jain: Apart from the projects orders that we have in hand, what is the size of the bidding that we have done and for which we are awaiting the results?

Radhakrishna Garapati: We have bid for another Rs. 560 crores.

Hardik Jain: And number of projects?

Radhakrishna Garapati: Number of projects is three. We have to bid for around three projects and all these projects except one which is around Rs. 20 crores is marine

Hardik Jain: Except one everything is marine?

RadhakrishnaGarapati: Yeah.

Hardik Jain: When we bided for this Rs. 500 crores order with Chinese JV, how much money we have invested in this JV?

Radhakrishna Garapati: Only the design charges and other things which was approximately around Rs. 15 lakhs to Rs. 20 lakhs, and my visit to China, another Rs. 3 lakhs to Rs. 4 lakhs for verifying the company.

Hardik Jain: You must have created a separate company for this JV, right?

Radhakrishna Garapati: Yeah.

Hardik Jain: So how much equity we have invested in that company?

Radhakrishna Garapati: No, we have not floated any company and the complete work will be executed by us.

Hardik Jain: And for this Rs. 500 crores project last time you mentioned that generally we have to give 20% bank guarantee for securing all the orders, so in this case for Rs. 500 crores how much BG will be required?

Radhakrishna Garapati: Yeah, we will be requiring Rs. 100 crores.

Hardik Jain: So this Rs. 100 crores is already like financial closures are done with the bank and secured?

Radhakrishna Garapati: Yes, at present we have limits of Rs. 120 crores, non fund based and Rs. 15 crores fund based with Vijaya Bank. We had applied for enhancement to Rs. 250 crores non-fund based and Rs. 50 crores fund based. We are going to get their approval by this month end.

Hardik Jain: So this should not be a problem for us?

Radhakrishna Garapati: I have already spoken to MD of Vijaya Bank. I have visited twice, and they are convinced. They are going to give us the approval for Rs. 300 crores.

Hardik Jain: And how much is our share in the JV?

Radhakrishna Garapati: It is actually 51% and 49% but the overall work will be executed by us and we give them only a part profit. Whatever the profit we get it, we will give them 2.75% .

Hardik Jain: So basically this 51% and 49% is what the shareholding?

Radhakrishna Garapati: Shareholding which has to be given to NHAI.

Hardik Jain: But we will get 97.25% of the profit?

Radhakrishna Garapati: Yeah.

Hardik Jain: At the time of the IPO analyst meet, you said that one of the main reasons for our margins to, that are really high is because most of our equipment are our own and we do not hire them, so do you think that with this kind of order book that is increasing, our equipment that we have will be sufficient enough to cater for Rs. 300 crores top line that we are mentioning?

Radhakrishna Garapati: Whatever equipment we have earlier is only for our Marine work. Now we are entering into bigger projects, so we may have to increase our CAPEX, at least to around Rs. 70 crores to Rs. 80 crores.

Hardik Jain: So this year how much CAPEX have you planned?

Radhakrishna Garapati: It must be around Rs. 35 crores to Rs. 40 crores for this year

Moderator: Thank you. The next question is from the line of Chitresh Lunawat, an individual investor. Please go ahead.

Chitresh Lunawat: I would like to know about the Gujarat project, Rs. 250 crores worth Gujarat project which we were bidding. So any update on that?

Radhakrishna Garapati: We had bid for two projects. Out of which one project was held up due to non availability of environment clearance from government. And the other project, will open anytime before this month end.

Chitresh Lunawat: That project is Rs. 250 crores kind of project size?

Radhakrishna Garapati: Yeah, it is around Rs. 260 crores odd.

Chitresh Lunawat: Now we heard plans of like BG and CAPEX, so any fundraising plan from the promoter like pledging of shares or by like how are we raising the fund?

Radhakrishna Garapati: We will have to pledge the shares, otherwise without collaterals no bank is giving financial assistance, you see the bank scenario has changed, without collaterals they are not giving any bank guarantees or anything, so we have no option except to pledge the shares. That is our last option.

Chitresh Lunawat: Any plans to raise further equity like FPO?

Radhakrishna Garapati: As of now nothing.

Chitresh Lunawat: Apart from this Rs. 525 crores project, any other guidelines? As you have told you bid for around Rs. 1,400 crores project and success is around 30% to 40%, so we can expect more Rs. 500 crores to Rs. 600 crores worth of projects this year?

Radhakrishna Garapati: Yeah. By this financial year end we will be reaching around Rs. 1,300 crores order book value.

Chitresh Lunawat: And also any update on the Drone subsidiary like what is happening there?

Radhakrishna Garapati: Yeah, Drones actually we have tendered works of around Rs. 28 crores and we received orders to the tune of Rs. 8.07 crores. We are expecting another Rs. 10 crores in that.

Chitresh Lunawat: So this year how much we did for drone subsidiary like how much revenue from that?

Radhakrishna Garapati: These are works got during the current year. We have started executing now. Regarding the drone, entering into Defense is not that easy but we are still trying our level best. Our R&D department is trying very hard to get into their specifications. We have a strong team on Board Admiral Satish Soni, General P. R. Kumar, then Wg Cdr Sreedhar, Brigadier G S Narayan, to guide us on the same.

It may take some more time for us to get into this because there are many big players and it is becoming difficult for us to enter directly. But we did not lose our hope, and our team is working hard. It may take 2 to 3 years to get a real picture.

Chitresh Lunawat: So are we talking with someone for Joint Venture for technology collaboration or it is our own technology?

Radhakrishna Garapati: We opened our own R & D cell. We are in the process of negotiation with some professionals and get them board. Depending on the advantage that the company gets, we will try and get things done.

Chitresh Lunawat: We have around Rs. 12 crores of fixed assets, but we are able to manage like revenues of around Rs. 200 crores to Rs. 300 crores, any idea like how we are able to manage such a high revenue with this low fixed assets?

Radhakrishna Garapati: Please repeat the question.

Chitresh Lunawat: Yeah, I was talking about fixed assets. As per the annual report the fixed asset was Rs. 12 crores. So am I wrong there like any numbers for the fixed asset currently?

Radhakrishna Garapati: So actually if you look at the fixed assets, as given the balance sheet the, historical cost of acquisition of the asset is Rs. 38.32 crores and the book value is around Rs. 14.25 crores and we do maintain the assets well. So if you really look at the asset value as a replacement cost, it is not Rs. 12 crores, it is much rose. Maybe you can say on a practical sense, it is around Rs. 60 to Rs. 70 crores as far as utilization is concerned. As well as revenue generation is concerned. So the Rs. 12 crores which we have concluded may not be very correct.

Moderator: Thank you. The next question is from the line of Ronit Ramesh from Finance Managers. Please go ahead.

Ronit Ramesh: First question is on the trade receivables. Sales is around 20% but your receivables that is on a double, why is that the reason?

Radhakrishna Garapati: Can you speak a little louder?

Ronit Ramesh: Question is on Trade receivables which are around Rs. 40 crores to Rs. 82 crores. Why is that doubled? And also can you tell me debtors more than 6 months in this?

Radhakrishna Garapati: It is a fact that the trade receivables has gone up to Rs. 82 crores for the current year. This is mainly because of one project where around Rs. 45 crores is actually due from the work specified that is on rural electrification work of PurvanchalVidyut Nigam Limited. The work certified for payment, the total work value of the contract is around Rs. 120 crores and work certified for payment is Rs. 84 crores and actual payment received is Rs. 45 crores.

So this is basically a back ended pricing formula which they are following for the release of payments. And practically the work for Rs. 106 to Rs. 110 crores have already been completed. So we expect the position should improve in current year once the work is completed. Because the end of work we should get higher payment.

Ronit Ramesh: By when is that?

Radhakrishna Garapati: That should be another four-and-a-half months from now. It is a state government project, even though part of funding is coming from central government. The project is managed by the state government.

Ronit Ramesh: Okay, so this is a receivable from state government only no?

Radhakrishna Garapati: Yeah, actually the project is managed by state government. So we expect that this position should improve by maybe September-October 2018 and once we are able to wind up the project.

Ronit Ramesh: Okay, so that was one of the main reasons why your short term borrowing has spiked from almost Rs. 0 crores to Rs. 13 crores?

Radhakrishna Garapati: For the current year cash credit limit has gone up, from last year March it was 0, current year it is approximately Rs. 13.5 crores of borrowing is there. We do expect realizations on some of the projects like Cochin to some extent from JNPT in the first quarter of current financial year, so around Rs. 36 crores is expected from two of projects. So I think this position will improve by end of first quarter.

Ronit Ramesh: And Cochin Liquid Terminal is completed, the order is done with?

RadhakrishnaGarapati: Yeah, the order is completed. But final handing over is expected in another one-and-a-half month's time and thereafter money will be released. Realization of around Rs. 27 crores is expected from Cochin and another Rs. 10 crores from other project. So this cash possession or the overdraft possession is getting in a better position by end of first quarter or maybe July 2018.

Ronit Ramesh: But in the last con call you said that Cochin is almost complete and almost 85% to 90% is done and only the maintenance type of thing is going on you almost finished with this. Is there been a delay?

Radhakrishna Garapati: No, there is no delay on our part and there is an extension given by the Cochin Port Trust. Out of this Rs. 82 crores, Rs. 15.26 crores is due from Cochin. Some more billings are expected to take place. So what I was trying to tell you is that from the Cochin project alone, a cash inflow of approximately Rs. 27 crores is expected by the first quarter or latest by July 2018. So once that happens, the cash position of the company will improve.

Ronit Ramesh: And around Rs. 40 crores from the state government for the other projects?

Radhakrishna Garapati: It is actually the project of Indian Oil Corporation and they have entrusted undertaking of this project through Cochin Port Trust.

Ronit Ramesh: In your last con call, your revenue guidance for FY19 was Rs. 350 crores if I am not mistaken. Has it come down to Rs. 300 crores for FY19 now?

Radhakrishna Garapati: We have not said anything. We said that achieved every year, there will be an increase of 20% to 25% and we have received around 21% this year. Next year maybe we will be seeing another 30% to 35%.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Out of this Rs. 826 crores orders which we are executing can you tell how much is Defense sector?

Radhakrishna Garapati: Defense would around Rs. 150 crores.

Ashok Shah: Only Rs. 150 crores and remaining is for the Marine or the Road sector?

Radhakrishna Garapati: Marine will be another Rs. 200 crores and balance will be the bridges.

Ashok Shah: So in case of this Defense, the billing is every 15 days or every 30 days?

Radhakrishna Garapati: Billing is 15 to 30 days.

Ashok Shah: And in Marine and Road sector?

Radhakrishna Garapati: Marine also same, because they are all Central Government only. Road sector would be around 52 days.

Ashok Shah: So how much time do they take to release the payment after we bill them?

Radhakrishna Garapati: Actually as per contract it is 52 days. But generally what we do is we request them and get the first initial 70% payment within 7 to 10 days. And balance will take 52 days to certify and then give the balance 30%.

Ashok Shah: So any other money left to be collected, returns money from any end of the past projects which we are expected to receive?

Radhakrishna Garapati: Nothing.

Ashok Shah: Retention money, no money to be received?

Radhakrishna Garapati: Retention money is there, retention money would be around some Rs. 20 crores which is to be received which we will be receiving on completion of these projects.

Ashok Shah: So during this current year or it takes more than 1 year?

Radhakrishna Garapati: During current year, we may receive around Rs. 15 crores.

Ashok Shah: It is already billed in the accounts or it will be extra showing as accounts during the current year?

Radhakrishna Garapati: Please repeat the question.

Ashok Shah: This retention money around Rs. 15 crores which we are expecting to receive during the current year. Is it billed in the accounts or it will be billed as and when it is received?

Radhakrishna Garapati: We have already accounted for the retention money, because the work is done, and the money is due. It is only held up for a future event that is handing over and taking over etcetera has to take place. It is more clear, in the Rs. 82 crore of debtors rather Rs. 20.6 crores is retention money. And this money will come to us, it is already approved to us, it will come after the future event takes place that is handing over or final commissioning depending on the individual conditions of each contract.

Ashok Shah: So as stated by Mr. Radhakrishna, we expect to have Rs. 1,300 crores order book by end of FY19, so how many orders we will be bidding or planning under stage? What is the requirement of working capital have been increased or we are bidding with the same project because our order execution is only 25% in the 19?

Brigadier G. S. Narayana: I think if we understand you correctly, we have already got almost a confirmed order book of Rs. 826 crores in our hand. We are also bidding for another Rs. 70 crores plus another Rs. 1,300 crores which are under submission. So we expect, as Mr. Radhakrishna has already explained in his opening remarks, that in the Rs. 570 crores we expect more than what was the confirmed ones and others we expect around 40% to 50% of success rate for us as per our

due diligence and experience. So the bare minimum we are expecting around Rs. 1,300 crores of order book on hand probably by the third quarter of financial year 2018-19.

Ashok Shah: So my question is about Rs. 1,300 crores we would be requiring additional working capital?

Brigadier G. S. Narayana: I will come to that point. That also has been explained. Presently our credit limit is around Rs. 120 crores of non-fund base limits and Rs. 15 crores of fund based limit, both are with Vijaya Bank. We have asked for an enhancement of credit limit to Rs. 250 crores of non-fund base limits and Rs. 50 crores of fund base limits. And out of Rs. 250 crores also we have asked for Rs. 50 crores of LC limits which will be exchangeable.

So the quantum jump of around more than double is expected and the proposal is in the final stages of approval by the bank. We are also in touch with other banks for further extension of the credit limit. So we do not find any issue as far as the credit availability even in the stressed financial market as of now.

Ashok Shah: On the Rs. 120 crores what is the interest rate we are paying?

Brigadier G. S. Narayana: Rs. 120 crores of non-funds is mainly used for the bank guarantees and LCs.

Ashok Shah: what is the the interest rates which we are paying?

Brigadier G. S. Narayana: Rs. 120 crores we do not have it is mainly used for issue of BGs. commission is around 1.5% as far as we are concerned. And for the fund based limit, which is used as working capital, the interest rate is around 12.65%.

Ashok Shah: When the company is going to hold AGM? Is it annually/every quarter

Brigadier G. S. Narayana: AGM I think it will be in September and the venue will be in Visakhapatnam which is the registered office of the company.

Ashok Shah: Why so much time of 5 months is required to prepare annual report? AGM can be held at the earliest stage also?

Brigadier G. S. Narayana: Yeah, we did note your point, we will look at it. Your point is noted about the AGM. It depends on the availability of the Directors. We will look at your point.

Ashok Shah: Please hold the AGM earlier and give the results in every quarter if possible because it would be very good gesture from the management.

Brigadier G. S. Narayana: Yeah, we will try and pre-pone the AGM depending on the availability of the Directors and then accordingly we will take it up.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Just one question related to employee expense. So if you look at this for second half, now the employee expense is almost Rs. 5 crores versus Rs. 10 crores what we paid in first half. So can you explain why that was?

Brigadier G. S. Narayana: I think the employee cost in the first half was slightly on a higher side because that time we have started the operations of earlier vertical for the technology transfer and other consultancy services which has been an employee cost has been incurred in the first half. That is one time or it is not recurring in the second half. That is why the second half is showing a lower figure.

Darshit Shah: Can you quantify that amount roughly?

Brigadier G. S. Narayana: There was expenditure towards starting of earlier vertical where we took some consultancy services and Director's remuneration was also coming in the first half. Director's remuneration and expenses for starting of UAE vertical for hiring certain technocrats have been incurred in the first half of the year.

Darshit Shah: How many employees do we have on roll currently?

Brigadier G. S. Narayana: 300.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

Vivek Gautam: My question is in case of government plants we are facing lot of difficulties in form of delayed payment and lot of delay in tendering finalization. So why are we not targeting the private sector also for our tenders and other orders, sir?

Radhakrishna Garapati: The problem what we are facing is with the State Government. There is no problem with the Central Government. We have been working with private companies in the past and you can see that the receivables of Rs 11.32 Crores are from them and not from central Government.

Vivek Gautam: But both private companies were in your marine infrastructure only because you have done the work I believe for Essar Port, and Vadinar Port and other private sector ports also?

Radhakrishna Garapati: We have done for CuddalorePort Company Private Limited which is holding an amount of around Rs. 6.25 crores. We have done for Visakhapatnam Port Trust ss a sub contract for SEW and around Rs. 2.5 crores is held up with them. Rs. 1 crores to Rs. 1.5 crores which has to come from IVRCL. So all these are private companies only

Vivek Gautam: Private companies these are all mostly bankrupt companies now SEW, IVRCL but I meant to say about that private sector ports which are coming up because we have specialization in marine and in private?

Radhakrishna Garapati: We have opted for another port, Honnavar Port in Karnataka which has come up. We are also trying to quote with Adani. We did a job with them and they are happy with us. Our main focus is mostly on Central Government jobs and defense.

Vivek Gautam: Okay but there the receivable issues crop up in the government sector?

Radhakrishna Garapati: Government there is no receivable issues, there is no issue with the Central Government. Only the retention money it will take a little bit of time, all other payments especially Central Government we get it within 15 to 20 days of submission of our bill.

Vivek Gautam: And what about competition intensity we are facing USP of our company which is helping us and the opportunity size for our sector?

Radhakrishna Garapati: Competitions are now actually strict. There is a little bit of competition on the marine side, but on the road sector the competition is less. The project releases were very high and there will not be any further contractors to quote probably in next one year. There is so much of work or very little work.

Vivek Gautam: So are we going into road sector beside marine?

Radhakrishna Garapati: At present we are going into only the bridges and if at all there is a concrete work like EPC contract, we are trying to go into that because we are expert in concrete work.

Vivek Gautam: So how is the opportunity size for such type of projects for us in NHAI?

Radhakrishna Garapati: NHAI the good opportunity is there, sir.

Vivek Gautam: Good opportunity?

Radhakrishna Garapati: Some of the bank guarantees we have with us. With the bank guarantees the opportunities is endless.

Vivek Gautam: So we are trying to contact other banks also for enhancing the bank guarantee and other things?

Radhakrishna Garapati: We have gone with the Union Bank of India, we have given our proposal maybe they will also sanction about Rs. 150 crores shortly.

Vivek Gautam: But most of the PSU banks are facing difficulty right now in disposing credit. So why not we approach some private sector bank also

Radhakrishna Garapati: We are approaching, we are approaching the private banks also, NBFC banks also we are approaching but when we are doing a Central Government jobs all the bank guarantees are to be given by a scheduled bank only. They will not accept any private bank, bank guarantees.

Vivek Gautam: That is strange because now the business is moving from public sector bank to private sector banks now in India especially in the corporate side also?

Radhakrishna Garapati: Yeah, it might take some time but we are working on it. We are working on getting with private banks at least the cash credit limit we are trying to work with the private banks wherein we are getting an interest rate at a lesser rate.

VivekGautam: Okay, opportunity size remains quite good for our sector sir?

RadhakrishnaGarapati: Yeah, it is good.

Moderator: Thank you. The next question is from the line of R. Ranjan Kumar, an individual investor. Please go ahead.

R. Ranjan Kumar: I had few queries which were cleared earlier. So I do not have any queries right now.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: What is the breakup of Rs.117 crores revenue, what all projects contributed to this? Rs.117 crores revenue in the second half, what all projects have contributed to that? Can you give the breakup of Rs. 117 crores revenue?

Radhakrishna Garapati: In the second half we had some construction of Jetty at Visakhapatnam, Cochin Port Trust and then Purvanchal, then from Pondicherry. JNPT is also there, there we got around Rs.13 crores.

Deepak Agrawal: How much is from Purvanchal?

Radhakrishna Garapati: I will just tell you. Contribution of revenues for Cochin Port Trust is around 42%, Purvanchal's around 28%, DGNP Defense project is around 19%, others are around 11%.

Deepak Agrawal: Okay so currently we have some Rs. 250 crores order on executed projects and in addition we have Rs. 800 odd crores of projects in hand?

Radhakrishna Garapati: It is not in addition. Rs. 826 crores is inclusive of this Rs. 250 crores.

Deepak Agrawal: What is the expected margin on these orders that we have in hand?

Radhakrishna Garapati: PAT would be anything around 7% to 10%.

Deepak Agrawal: And what do we expect on the CAPEX front this year?

Radhakrishna Garapati: CAPEX we might increase around another Rs. 50 crores to Rs. 60 crores.

Deepak Agrawal: Rs. 50 crores to Rs. 60 crores CAPEX?

Radhakrishna Garapati: Yeah.

Deepak Agrawal: We have a growth level of around Rs. 14 crores now?

Radhakrishna Garapati: We are entering into the bridge segment which would be around Rs. 1,000 crores this year. As this is a new segment, we have to purchase equipment and machinery. So CAPEX might go up to Rs. 50 to Rs. 60 crores this year.

Deepak Agrawal: Okay and last March 17 we had advance from customers of around Rs. 45 crores. Now we have only Rs. 15 crores so what is in there?

Radhakrishna Garapati: Advances are deposited with the department and as the work progress, Department will deduct the advances. Hence advances have come down as we keep coming close to the completion of the project.

Deepak Agrawal: Yeah but the total revenue is rising our business is rising so why should advances come down, for the new projects also are we not getting advances?

Radhakrishna Garapati: New projects, we are still to take the advance. We are still to take because all the advances are on interest payment. The coming season is monsoon period so we should not lose any interest on this monsoon period that is why we are holding. Once this monsoon ends, wherever the requirement is there then we take advance from them.

Deepak Agrawal: Are we paying interest on these advances?

Radhakrishna Garapati: Yeah we have to pay interest on the advance.

Moderator: Thank you. The next question is from the line of SubramaniamYadav from Subhkam Ventures. Please go ahead.

SubramaniamYadav: Sir just had few clarifications. The order book of Rs. 820 crores we would be executing Rs. 300 crores this year FY19, so we are left with Rs. 500 odd crores. And you are expecting another

Rs. 800 crore of inflow this year so that we could reach around Rs. 1,300 crores of order book at the end of the year, right?

Radhakrishna Garapati: Another Rs. 500 crores.

SubramaniamYadav: Another Rs. 500 crores so you would be ending the year with Rs. 1,000 crores of order book, right?

Radhakrishna Garapati: Yeah.

SubramaniamYadav: And sir can you give me the breakup of this Rs. 82 crore receivables, the Rs. 26 crore is from Cochin, right?

Radhakrishna Garapati: I will give you the breakup. Indian Oil Corporation Cochin Port is around Rs. 15 crores, CuddalorePort Rs. 6 crores and the major receivable is from PurvanchalVidyut Nigam Limited which has already been clarified. So the dues from Purvanchal is around Rs. 48 crores. So Rs. 48 crores from Purvanchal, Rs. 15 croresfrom Cochin Port Trust, Rs. 6 croresfrom Cuddalore and other ports together is around Rs. 25 crores.

SubramaniamYadav: And sir, the CAPEX earlier you said it was around Rs. 40 odd crores, now you are saying Rs. 50 crores to Rs. 60 odd crores, so what is the exact amount?

Radhakrishna Garapati: See all the projects what we are taking up is on EPC. The equipment depends on our design whatever it comes. Suppose the span is taking as 45 meters span then that will reduce the cost of the equipment which is there. If I take the 60 meters span the cost of the equipment goes up. So these are all in the design stage so we will not be able to give you the exact figure. We will also go for an asset building by striking a balance between the rich profile of owning versus hiring.

Moderator: Thank you. The next question is from the line of Nikhil Shah Consultants. Please go ahead.

Nikhil Shah: Just couple of clarifications. So in terms of the order book position, just to clarify we said that it is Rs. 826 crores which includes the Rs. 500 crores with the Chinese partner and if we execute Rs. 300 crores in the year then it comes down to Rs. 500 crores. Which means that at the end of FY19 in terms of unexecuted order book it will be Rs. 1,000 crores not Rs. 1,300 crores, right?

Radhakrishna Garapati: Yeah it will be around Rs. 1,000 crores.

Nikhil Shah: Okay and in Rs. 1,000 crores by the end of FY19 what would be the composition of bridges sector sir?

Radhakrishna Garapati: Bridges sector would be around roughly Rs. 600 crores to Rs. 700 crores.

Nikhil Shah: Rs. 600 crores to Rs. 700 crores and that is why because all your equipment is more in the marine side for bridges because it is constituting 60% to 70% of your unexecuted order book you will need CAPEX. And this CAPEX will be spread out right so in terms of the depreciation impact it will probably be?

Radhakrishna Garapati: It will be spread out in next five to ten years.

Nikhil Shah: Yeah but I am saying the depreciation impact and the interest of it will start kind of flowing in as and when your execution increases, right? So as a result of this, the impact of interest and depreciation offset by the growth in the business, so what kind of margin expansion are you looking at sir in FY19 PAT level?

Radhakrishna Garapati: Yeah, PAT level we are saying right from the beginning we will maintain between 7% to 9%. See not only that you have to consider ongoing projects of around Rs. 250 crores with us. Most of ongoing projects most of them will be completed. So in the completion we get little bit of more income. Being government companies they will pay more amounts at the end. So you strike a balance between this and that.

Nikhil Shah: Fair enough. Sir, one last question on an average what would be the split of your order book between Central Government and State Government?

Radhakrishna Garapati: We are thinking of not taking any more State Government jobs. At present, we are trying to taking up only Gujarat Maritime Board that is the only one State Government job what we will be having it and in Visakhapatnam we have one small work which is about Rs. 20 crores job. We have taken up because it is an iconic project and we want to show our position in the State. So the ratio must be around 75% to 25%; 75% Central Government 25% State Government.

Nikhil Shah: Correct. So right now Central Government 75% expected to go up to 100% by end of FY19 when you have an order book of Rs. 1,000 crores unexecuted, right?

Radhakrishna Garapati: No, it will remain around 80:20 ratio.

Nikhil Shah: 80:20 ratio will be Central Government, State Government and about 60%, 70% will be bridge projects.

Radhakrishna Garapati: Yeah.

Moderator: Thank you. The next question is a follow up from the line of Hardik Jain from Milestone Financial Advisors. Please go ahead.

Hardik Jain: In marine projects we used to get advances from the government but is that the same case for the road projects as well where we get some advances from the Central Government?

Radhakrishna Garapati: Yes sir, same. But for the road projects the interest rate for NHAI project is lesser.

Hardik Jain: How much have we charged in marine and what is the interest rate over here in NHAI?

Radhakrishna Garapati: In port sector, it is PLR (Prime Lending Rate) plus 4%. Whereas in NHAI Contracts/Agreements it is bank lending rate which is now probably around 6.5%.

Hardik Jain: It is quite less, okay. And sir, in terms of margin profile is marine projects have a better margin than bridges or they are almost the same?

Radhakrishna Garapati: The last twenty years I have been in marine projects and we have developed our own machinery for our works. If we have to purchase the machinery from outside, it costs around Rs.100 but then if we are manufacturing the same machinery on our own, it is costing around 60% to 70% so there is a saving of around 30% to 40% in the cost of the machinery. That is the reason you find a little bit more margin on the marine side.

Hardik Jain: Right, so that means to say as our order book tilts towards bridges and roads where we are not manufacturing our own equipments and we are purchasing from outside, the margins in the bridges segment will be lower than what we have witnessed earlier?

Radhakrishna Garapati: Whatever bridge work that we taking up is on River Ganga, is almost again a marine type of work only.

Hardik Jain: Okay so in that project the Ganga River project the bridge that we are making we will be using some of our own equipments?

Radhakrishna Garapati: Most of the foundation work, we will be using the equipment what we have. And other works we will have to either buy it or take it on hire.

Hardik Jain: Okay because that is what I was wondering because when you are saying that; 7% to 9% PAT margins and what we have seen because the tilt is towards bridges, will we be able to maintain this 7% to 9% PAT margins?

Radhakrishna Garapati: That is the reason why we are not entering into the road sector, though we have got lot of opportunities. Whenever we take up the work, the package is around 60 to 80 kilometers. Managing one kilometer is far easier than a road package of 60to 80 Kilometers.

We have very good control in bridges due to the located projects and we have control over this but when you go in 60 kilometers controlling will be difficult. That is the reason we get a PAT value on the road sector a little bit less and on the bridges if you organize well you get a higher margins because the number of components in a big project is only around 6 to 7 like concrete, reinforcement, bearings, tiling etcetera but whereas when you go into the roads, you have got so many items. There is also a lot of problem with land acquisition, and theft

also is another issue. So whereas in bridges, we concentrate at one location security and all will be easier.

That is the reason we are trying to concentrate only on major bridges. And River Ganga bridge what we are doing is one of the prestigious projects of Prime Minister of India. He has chosen around 13 bridges on River Ganga, and out of which five bridges have been completed, three bridges are on tendering stage and another five bridges they are going to ask for bids. So this is one of the prestigious projects and we will not have any tax flow issues or anything on this project.

Hardik Jain: Okay and we were considering some of the gas pipeline link projects are we considering any of such projects, are we bidding for those projects?

Radhakrishna Garapati: We had bid for two projects but we have not been successful. We are still trying.

Moderator: Thank you. The next question is a follow up from the line of **Rohit Ramesh** from Fund Managers. Please go ahead.

Rohit Ramesh: Yes, I just wanted to know who are your main competitors in this bridges segment.

Radhakrishna Garapati: In the Bridges segment I think, there are around eight to nine parties which are bidding. They are the only competitors for bridges and we are waiting for them to get exhausted. Once they are full, we will enter and then get into the good job. So we do not want to waste our bank guarantees and all in a competitive tenders rather than wait and then if we can get a good job like how we got the Farakka job.

Rohit Ramesh: Are there today like Titagarh wagon that give you competition in bridges segment?

Radhakrishna Garapati: Your voice is not clear.

Moderator: Thank you. The next question is from the line of Jitesh Burma, an individual investor. Please go ahead.

Jitesh Burma: Sir, I have a question on our H2 result. So if we compare this against H1 we have kind of a flattish growth, if you could just explain the reasons and how do we see this half year the H1 for FY19?

Radhakrishna Garapati: See in H1 we got the JNPT work. We just started the JNPT work but as we started proceeding with the works and we have done around Rs. 20 to Rs. 25crores job. But when we executed the project, when we have gone into one of the item they have. They have given only Rs. 5 crores for that work whereas that work cost around Rs. 140 crores. So the department is in a fix whether they want to get the work executed through us or call for a separate tender.

In my last two three visits, finally I think they are going for a separate tender and unless they execute that work, we will not be able to execute our job that is the reason there is a delay of about six months. Maybe we should be able to cover up only in the second half of the financial year'19. That was the main reason why the turnover has been reduced in the second half of last year.

Jitesh Burma: Okay sir and how do you see that, because we are already in June, the second week of June so how do we see this half year the first half year of FY19 if you could throw some color on how it is going right now?

Radhakrishna Garapati: Half year '19 may not be that encouraging because whatever projects we have tendered are on engineering procurement and construction. So the three works are on design now. So we have to take the design, submit the design, get the approvals of the design and then start the execution. So it might take around three to four months for us to get all these things done. So maybe first half may be a little bit dull but by the year end, we will be able to cope up and get a better result.

Jitesh Burma: Okay and you just mentioned that we are also exploring an option for hiring equipments and we earlier said and we have repeated that one of our strength and the reason we enjoy better margin is because we use our own equipment. So how do you see this mix changing and how this will impact our bottom line?

Radhakrishna Garapati: See what happens is, as I just explained you there is a foundation work and the foundation work has got around 700 tiles. For executing this work in one season we will be requiring about 4 machines. The cost of these machines would be around Rs. 5.5 crores to Rs. 6 crores. So if I have to purchase all those machines and after the work s are over I will have to roam and get only those works. So we may get into problems. We get ourselves whether to purchase the machine or to take it on hire which is more economical for us. If they are available on the market and are available on hire, we take it up finish the work in one season and then come out of that we get our margins.

Jitesh Burma: Okay can we still enjoy the similar margins that we at present enjoy in the existing project?

Radhakrishna Garapati: Whatever I have promised you we will definitely maintain it, no problem.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of SubramaniamYadav from Subhkam Ventures. Please go ahead.

SubramaniamYadav: Sir, any indication when will be get the Purvanchal receivables of around Rs. 48 crores any indication from their side?

Radhakrishna Garapati: It might be around four-and-a-half to six months as explained to realize the complete amount.

SubramaniamYadav: Okay at least are they realizing part payment or something like that or?

Radhakrishna Garapati: Yeah, they will be realizing part payment.

SubramaniamYadav: Okay have we recently got anything from them?

Radhakrishna Garapati: No, we did not get anything.

SubramaniamYadav: Okay and what is the reason they are mentioning sir for this?

Radhakrishna Garapati: It is not the question of reason. See this is a rural electrification job, what is happening is we have to finish all the jobs then commissioned, give the supply and unless we give the supply and get a certificate from the local Panchayat President, they will not release the payment. And this work is in UP, that is the reason you have to work in difficult condition. So it is not a small thing to get into. That is the reason it is taking time.

SubramaniamYadav: Okay. So end of the year how much can we be able to receive from this Rs. 48 crores?

Radhakrishna Garapati: End of the year I think we should be able to completely get the amount.

Moderator: Thank you. I now hand the conference over to the management for closing comments. Thanks and over to you, sir.

Radhakrishna Garapati: Thank you. Before we close the 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 your participation in the conference call amidst your busy day. Thank you and have a wonderful time ahead.

Moderator: Thank you. On behalf of RKEC Projects Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.