

Conference Call Transcript

J. Kumar Infraprojects Recent Development

October 01, 2018 | 3 p.m. IST

Corporate Participants

Mr. Kamal J. Gupta
Managing Director

Mr. Nalin J. Gupta
Managing Director

Mr. Arvind Gupta
CFO

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Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the J. Kumar Infraprojects Conference Call with the analysts to discuss recent developments in the company hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Parvez Qazi of Edelweiss Securities. Thank you and over to you Sir!

Parvez Qazi: Good afternoon friends. On behalf of Edelweiss Securities, I welcome you all to conference call of J. Kumar Infraprojects. Today we have with us from the management side, Mr. Kamal Gupta, Managing Director of the Company, Mr. Nalin Gupta, Managing Director of the Company, and Mr. Arvind Gupta, the CFO of the Company. I would now hand over the call to the management for their opening remarks. Over to you Sir!

Kamal Gupta: Good afternoon all. This is Kamal Gupta. We are aware that this concall is because of this SEBI development. I would like to state that we have recently sometime back released a press release. So I will just go through that for everybody's information.

It goes like the whole time member of SEBI has passed an Interim Order dated September 28, 2018 in which it has recorded certain *prima facie* findings against the Company on the basis of some *prima facie* materials. This Order is not a Final Order and SEBI vide the said order has asked the Exchange to appoint an independent forensic auditor to conduct the forensic audit of the Company for the limited transactions as recorded in the order.

All the documents, which were asked by SEBI, were duly provided by the Company except certain documents, which were more than eight years old and so were not in possession of the Company. From the Order it is clear that the Company is not a shell company and it will have no consequences or embargo on the liquidity of the trading of the Company on the Stock Exchange and the Order shall have no consequences on the trading in the scrip of the Company.

As has been recorded in the order, National Stock Exchange of India Limited has also submitted a positive representation to SEBI stating that Company is compliant with LODR Regulations and Company's shares should be allowed to be traded on its platform.

The Company is taking legal advice in the matter and Management of the Company is confident that findings of the Order will be set aside upon proper appreciation of the facts and circumstance by SEBI.

Thank you. So this is the press release what we have given sometime back, which is already on the exchange sites.

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We will just go ahead further to clear all the doubts and questions of everybody. I hand over the lines to you Parvez.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Dhruv Agarwal from Crescita Investment Management Private Limited. Please go ahead.

Dhruv Agarwal: Good afternoon Sir. Sir my question, I will ask about two to three questions. One of the thing is that does this all of this affect in anyway the work that is being carried out by the company on the different metro lines that are being carried out by you in Mumbai?

Kamal Gupta: No, this will not affect in anyway any of the ongoing work and for the future work as well.

Dhruv Agarwal: Okay that is one thing. Sir regarding this forensic audit what is the timeline, now who will appoint the auditor, how much time will it take for him to audit and is there any guideline being given by the SEBI in this matter?

Kamal Gupta: There is no guideline given on the timeline. So the exchange will appoint it, but like usually I think it take a month or two months or so minimum, so there is no communication on that right now.

Dhruv Agarwal: So to appoint the forensic auditor it will take one to two months is that what you are saying?

Kamal Gupta: This is what we feel.

Dhruv Agarwal: Sir regarding this SEBI order I think the last time when we were categorized a shell company and then after that we made all the appeals and then ultimately we were removed from that place. From that time until now all of these investigations were taking place, so why did from the company there were no notifications being filed regarding the matter on the BSE website or the NSE website if you could update on that please?

Nalin Gupta: If you look at the information we were been posting everything time-to-time and the last communication that we had made was in February around seven, eight months back. So there was no communication made by us after February, which is around eight months back, last communication was made in February.

Dhruv Agarwal: So after that SEBI or none of the other investigating agencies they have not made any communication to you regarding this matter?

Nalin Gupta: No, absolutely not, so that is the reason we had been always mentioning that we have not been informed about any developments till date.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. We have next question from the line of Sandeep Nag from Ashmore. Please go ahead.

Sandeep Nag: The question I had was, so what are your lawyers suggesting now, what is the course of action going forward one? Second is can you appeal to the SAT for this against the forensic audit?

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Kamal Gupta: Yes, first of all we are already discussing with our lawyers and senior counsel, so like right now what we are doing is we are making representation before SEBI and we will try to convince them on all the issues raised. We are also in touch with our lawyers and we are working on all options open. They are also suggesting one settlement proceedings are there and like SAT is there as what you are saying, so all these options are open, we are just taking some time to think and finalize on that Mr. Sandeep. So we will adopt the best course of action in due course.

Sandeep Nag: So settlement is something that is on the table right, because some of these things can drag on for way too long, but that is something you guys also considering right?

Kamal Gupta: Yes it is right because it is better to buy peace of mind, so like what will be best suitable Sandeep. So we are working on all these options like SAT and settlement proceedings and applying everything.

Sandeep Nag: Thanks a lot.

Moderator: Thank you. We have next question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir let us assume there is a forensic audit, so what would be the financial implications of forensic audit if assuming SEBI whatever they are saying is proved to be right?

Kamal Gupta: Well, if you look at this the entire transaction is related to three years and the income that the company has got from this is hardly to the tune of 3 Crores, 3.5 Crores. So that is the thing and also which also due taxation procedure and everything has been complied. So there is no shortfall anything from J. Kumar side in anyway.

Shravan Shah: No I am trying to understand that I have gone through the entire 55 pages and in two or three meetings you and your lawyer were saying that or we are opposing forensic audit. So let us assume that if forensic audit is there and then you are saying that there will not be any financial implications or to be on the other side there will not be any impact in terms of the legal or maybe ban in other ongoing projects or any kind of things which can affect our ongoing things or do we have to provide any provisions or anything which can have financial implications first of all and any other legal implications which can affect our ongoing business?

Kamal Gupta: As we had clarified Shravan before also, this order of SEBI is categorically restricted to the issue of the particular contract. It is not an open forensic audit, or it is not related to as a general. So it is typical transaction related audit, number one. Number two it has nothing to do with our ongoing or future works not even the trading by J. Kumar's promoters because there were some rumours that J. Kumar's promoters cannot trade, so there is no such restriction in any sort. So there is total of course this order is not a very pleasing thing for anybody of us, but it has nothing to do with the present and future operations of the company or any financials of the company, it is only related to its specific transaction of that two three years, which is eight years

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old back transaction.

Shravan Shah: In that case there are seven to eight points where even we have submitted our course of action or the required documents, but SEBI on each and every point has given a contra view that we have not provided sufficient documents or let me put it in point wise there is a genuineness authenticity of contract and subcontract where SEBI clearly said that the contract or the agreement entered between us and PACL and us and the subcontractor are not on stamp paper and also we have signed on the last page and the subcontractor have not even signed on that thing. Second thing is in this case we have got only 2% or 3% kind of a profit margin, which is against have a normal 15%, 16% kind of a profit margins so that is not in the commercial nature, second is in terms of invoices there are same invoices for the same date, same number invoices are there that you have submitted to the SEBI and in terms of the internal working papers also and also in terms of the books of account or work completion certificate where we are following the percentage completion method and we are saying that this is not books of accounts where the SEBI clearly have indicated in terms of the sections of particular companies act that even to maintain this kind of a records is also part of books of accounts and there was a lack of evidence for the actual work being carried out. What I am trying to say its whatever the point SEBI has to raise they have raised we have also represent on that and despite that the SEBI has given a direction for the forensic audit. So now what is our course of action in the sense how we convince the SEBI that there should not be a forensic audit and second why we are even opposing the forensic audit when we are clear that we have not done anything wrong then let us even we should have gone previously also and we should have accepted the forensic audit then the actual thing should have come to everybody?

Kamal Gupta: Firstly like some of the points that I noted while you were speaking is that the work audit not stamped or something like this. I would like to specify that when there is a contract between a government and a private body there is supposed to be a stamp paper duly signed and notarized and all that stamp duty paid and everything, but whenever we also take up any job and we give it to a subcontractor that is into a private industry like J. Kumar takes up a job from government and gives the job to an excavation contractor or a RMC manufacturer or something like that, there is no need to takes on a plain letterhead or on a white piece of paper which is generated from ERP and purchase order or a work order, which is not notarized, which is not stamp duty paid and which is not be norm as per the contracting thing, which is required that is number one.

Number two with respect to margins that you are saying margin is altogether a different system of operation. All your contracts do not work with the same set of margin. It is not a cyclostyle note. Some contracts they have very good margins, some it is a business strategy, it is a business call that the management has to take. In 2008 to 2011 period if you look at the period that was a period when the infrastructure industry was on the slowdown, there was

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no EPC jobs that was coming up, that is the period in 2010 that the company entered in to different states of Gujarat, Rajasthan, Delhi, Lucknow and we started taking up jobs because we are not in to BOT and PPP jobs only pure EPC. So that is the reason why we entered into it and which does not require any marking.

With regards to margin when you are speaking up firstly when I do not have to do anything, I am still making something maybe 1%, maybe 2%, but still I was making something I was not losing anything. So that was the important part and when we see as a whole many a times in our certain contracts like Delhi we had there was a learning cost. So we did not make fantastic margins there, but the overall margin if you talk of we made good margins. So some places there are 2%, some places they were 20% so it is averaging. With respect to invoice numbers they were all clerical mistakes which can happen this number if you write the same number somewhere I think you will appreciate that it is not any fraudulent practice for that. With regards to internal working it is our own working document that is a document which is our bread and butter, which is not known to even our finance department what we do, it is a very closely held item and which we should destroy once the contract is awarded, because it has got no relevance after that. Once you bag then the contract becomes the guiding factor for your costing.

With regards to completion certificate again it is not a requirement in a private sector. If I take up a job from any private company, I cannot use it in a government department to show that it is my worked on certificate whereas in government it is a compulsion for us to get our new jobs so that is the reason why we were not so very keen or any private certificates to be taken up. With regards to your question of appointing, still we have taken that certificate. The acknowledgement, which was time-to-time of the work done on the interim payment this certificate, has already given that the work is completed by J. Kumar that is number one. With regards to forensic audit J. Kumar never had any issue why forensic should not be conducted. The whole idea was when you are not at fault we were opposing the *prima facie* point of appointing any auditor or any fraudulent practice from J. Kumar's side. If SEBI wants and if it feels necessary it can surely go up for a forensic and we basically objected it for shell company point, which was raised to us and even in the NSE also clarified that J. Kumar has done all the compliance under LODR and that is why it has been under kept under operation for trading. So we never had any issue with forensic even now we will try to protect that we should not be levied because we are correct and still if the Honorable SEBI feels that no, we want to appoint they are more than welcome to come in to the forensic audit.

Shravan Shah: Thank you Sir.

Moderator: Thank you Mr. Shah. We have next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Good afternoon Sir. Thanks for taking my question. Sir two questions from my side. Sir one is I think as you mentioned that there is no impact to the present and the future business of the company because of this

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case, I think what my understanding is that it is not just that the company that the SEBI is acting upon us that we probably had some revenues and there is some unpaid tax on that. I think what they are trying to hint here is that we misrepresented the financials and we quoted some revenue, which was probably never there if I can quote what they said is to whether these contracts were never taken to be executed and we kind of misrepresented the financials. In that and they have also held us accountable for violation of Companies Act Section 2 and Section 209 as well. So what I understand is what we are looking to implicate here is that we are not following those practices under the Companies Act and probably misrepresenting the revenues in which case again, it is a long drawn thing I am sure this is just an interim order I understand the final order might not come for a long, long period of time, but any development on this side from their side might actually cause many of the awarding bodies that we have from whom we have orders to actually maybe even stop giving us new orders or maybe cancel the new orders it might actually also stop our lenders from giving us more money to be able to execute the contract do you see that risk in this entire episode that SEBI is come up with?

Kamal Gupta: Mr. Singhal if you look at this point, there was the representation or the misappropriation of accounts that we are talking of, if you look at the number it is not even 5% of the contract value of the topline of J. Kumar of 1000 Crores revenue and averagely say Rs.50 Crores as the revenues that we are discussing from this transaction is so meager that in such situation there was no need for the management had it been say something exorbitant figures there would have been an intention, there would have been a concern. In this case even if you remove a 50 Crore topline from 1000 Crores, 950 and 1000 Crores does not really like much difference, I think you will appreciate that point and with regards to our contracting this is all things that has been we are talking about eight years back, eight to ten years, which is in the present scenario there are which there is no relevance to that because we are of right now every contract is given on the present topline of the company not ten years back.

Vibhor Singhal: Sir I understand that it is a very small part of our overall revenue but does that revenue being small portion of the total revenue hold in the court of law. I do not think so the amount matters in the law. According to law if there is a practice, which they have found to be correct or incorrect it does not matter if it is 1 Crores or if it is 1000 Crores. What is being tried here is a allegation against our name and as you said that contract that we have been awarded have been awarded on the topline that we have currently right now that is a technical qualification, but before the technical qualification itself if there is basically a notice against the company remain that the company has been booked by SEBI or in violation of companies act would not that impact the clients as well?

Kamal Gupta: There is no such clause available in the contract that we bid for in the government contract this is not a *prima facie* requirement number one. Number two, the point that we are discussing about this 1 Crores, 10 Crores I

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fully appreciate your point, but had it been, if we were wrong, SAT would not have set aside the order by SEBI in a day or two's time so the genuinity of thing has to be looked as an overall picture and not with one order of interim order that the SEBI has passed on we went to SAT and we got the order set aside in one days time means there is a merit in our case and this thing we will prove it, when the time records even now all the entries are by cheque there is no cash transaction that SEBI has, had it mean that SEBI has told that there is a cash transaction there is 50 Crores come in 25 Crores check entry has been passed there would have been an issue that you should have been concerned. This is a cheque entry which has come through PACL to us and us to a subcontractor, which is by cheque there is no means there is no in this appropriation of fund in any manner. So there is no reason for us to be really so much bothered and we will prove it that that the work had been given to us. We have given even the income tax department during the assessment they have clearly given a clear order in case of PACL transaction also that there is no misappropriation.

Vibhor Singhal: Sir just couple of questions more from my side. You mentioned that many of the contracts that you signed with that have been signed between various private parties let us say even if it has a client or a subcontractor they are not signed on a notarized paper or a stamp paper and basically there are generally on a letterhead or on a plain piece of paper, so these kind of agreements will they ever hold in a court of law so tomorrow let us say it is...

Kamal Gupta: Let us say surely they hold true because it has been issued by one party accepted by other party it is not any off-paper transaction only. As per the contract system if that is operated in the industry between two government party, between a government and a private party then it is a stamp duty requirement as per the contractor provision, but with regards to a private industry let it be J. Kumar, let it be any other contractor there is no such requirement of a mandatory requirement for getting the document stamped or notarized for a work order or purchase order this is so far has been the comfort of two transacting parties that is it, which is in writing duly stamped and signed, but on the companies fee not on any stamp duty or notarized.

Vibhor Singhal: Right so Sir what I was trying to get was I know it is not a requirement, but tomorrow let us say if there is a contract that we are doing for a private company and if let us say on the completion of contract there is a disagreement between the two parties if the contract has not been signed on a stamp paper or a notarized paper and it is just on a plain piece of paper can you take that document to the court of law against the client?

Kamal Gupta: I will tell you, Mr. Singhal if you see that if even MoU has been made a MOU which does not which is not means when you do a land deal or a real estate transaction or anything even in that even a MoU, which has not been stamped will still hold a legal standing and holds good in the court of law even here also when we are doing executions there are labour disputes, there are party disputes, which are being taken to arbitration or to such matter and which holds the value. Because it is a documented thing merely by paying stamp duty

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it does not become legal or not legal. It will stand in the court of law Sir.

Vibhor Singhal: So basically the contracts that we do for most of it with most of the private parties we never get our documents notarized or a stamp paper or what is the special case here?

Kamal Gupta: Never. Since last 38 years Mr. Singhal we are doing this way but never this issue had come.

Vibhor Singhal: Okay we have always done agreements on plain paper itself?

Nalin Gupta: Always even now 2000 Crores topline we are doing that is not even I do not remember even one document being put on a stamp duty or a notarized paper that is what we were trying to explain SEBI through our lawyers and again we will put that thing with the current records.

Kamal Gupta: As we understand not even the other big companies none of the companies except maybe some of I do not know but we have not heard that anybody does this the notarized in subcontracting. They do piling as a subcontract to various agencies because we are a specialized agency into pile foundation also at J. Kumar we never receive orders even from L&T, Afcons, Simplex any company on a stamp paper it is always on a plain paper or on a letterhead.

Vibhor Singhal: Sir last question from my side. Sir whatever documents we had for the entire eight or ten years of what we had preserved we have already given those documents to SEBI, as I understand stay in our communications till February. So hereafter what is exactly what is the incremental evidence that we can give to SEBI, which will basically persuade them that they should not carry out a forensic audit, because they already have all the documents which we had and I do not think so we would have held back any documents we would have given them everything, if we have everything based on seeing that everything they have given us an order for a forensic audit. So is there a scope for not getting a forensic audit done for second part and second part as you mentioned are we actually looking to get a stay order on the forensic audit at all?

Nalin Gupta: Yes, we have mentioned that we are exploring all the legal options that Mr. Kamal has already explained that we are looking, we are going to reply to SEBI, there is an option of going to SAT, there is an option of buying peace of mind to going in consentum, so all these options are into the pipeline. We are looking at because we have just got today we have got information about this. On this we will have to do due diligence and we have good lawyers on board, one of the number one senior counsel available for us so we will surely opt for one of the best options and if required we will also take the option of consentum because which is clearly available just to buy peace of mind and close this issue once and for all if required. So we need some time to take a conscious call on it.

Vibhor Singhal: Sure Sir I appreciate that. Thanks a lot for taking my questions Sir. Wish you all the best.

Moderator: Thank you very much Sir. We have next question from the line of

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Vijay Shetty, Individual Investor. Mr. Shetty, please go ahead.

Vijay Shetty: Sir is this call only with respect to SEBI or we can ask other questions?

Nalin Gupta: Yes this concall is basically for this SEBI matter. We would appreciate if we can stick to this area, but if anything we can reply there is no issues Sir.

Vijay Shetty: I had one question for SEBI is Sir you have raised Rs.200 Crores, Rs.300 Crores debt since the last SEBI order so will financing lines be affected or there is no problem on that?

Nalin Gupta: There is no reason of getting affected Sir there is no issue.

Vijay Shetty: Yes because you are already getting the fund. Thank you Sir.

Moderator: Thank you Sir. We have next question from the line of Hiren Trivedi from Axis Securities. Please go ahead.

Hiren Trivedi: Good afternoon Sir. Just a small question like in case that if you are going to opt for any settlement with SEBI or the agencies have you estimated what kind of expenditure that might involve or what is the settlement amount that you would have estimated is there any kind of estimates?

Nalin Gupta: Our revenue was 3 Crores so what we have understood we are not clear but the maximum what goes up to is 1.25% of that so maybe around 4 Crores to 4.5 Crores should be there but we are not clear on this we will of course take the opinions of our lawyers what is the liability and all if at all if you go for this consent settlement proceeding.

Hiren Trivedi: Thank you.

Moderator: Thank you Sir. We have next question from the line of Amit Jeswani from Stallion Asset. Please go ahead.

Amit Jeswani: Kamal Ji. Thanks for the explanation to that. I just wanted to know that are the promoters looking to increase their stakes as we have a lot of talks that is available and you do had your trading limits on?

Kamal Gupta: Amit this is right now a matter of firstly here we are going for firefighting for such issues, but yes for means whether we want to do creeping us something we will take a call about this factor also. This is also in our mind but looking at the current commitments that the company has for working capital and capex we need to take a conscious call, but yes we are thinking on that part also to some extent.

Amit Jeswani: Sir do we need any more debt going forward?

Kamal Gupta: Nothing major as such, Amit because the work which are been taken up or in pipeline and in full swing so with the mobilization advances, with the current debts and internal cash accruals we are able to really manage with this so any liquidity or any debt is not even major pipeline in our mind.

Amit Jeswani: Thank you Mr. Kamal. Thank you so much.

Moderator: Thank you. Thank you ladies and gentlemen, as there are no

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further questions, I now hand the conference over to Mr. Parvez Qazi from Edelweiss Securities for closing comments. Sir over to you!

Parvez Qazi: Thanks everyone for attending this call. We would also like to thank the management of J. Kumar Infra Projects for giving us this opportunity to host the call Kamal and Nalin Ji would you have any closing comments to make?

Kamal Gupta: Thank you for joining us and as obviously we are very confident that in very short time we will be out of this and like we will satisfy SEBI also to put aside these orders. Thank you.

Nalin J. Gupta: I would also just mention that we will not let our investors down. There are two issues of BMC and this which has happened and we have proved to be standing on our commitment, as the Directors of J. Kumar we had committed that BMC would not have any impact on the topline and order book of J. Kumar, which we proved to be correct and the order book has gone up from 3000 Crores to 10000 Crores with a good increase in bottomline. Here also we can really give you a firm commitment that we would not let our investors down and we will get it to. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.

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