



“KNR Constructions Limited Q1 FY17 Earnings
Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the KNR Constructions Limited Q1 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the 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 for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan – Vice President, Finance, KNR Constructions Limited. Thank you and over to you, sir.

S. Vaikuntanathan: Good Afternoon, Friends. I Welcome you all on our earnings call for quarter ended 30th June, 2016. Along with me, I have Mr. T. L. Verma – Vice President, Technical; Mr. K. Venkatram Rao – General Manager Finance and Accounts; Mr. Anand Rathi – Finance Manager and Strategic Growth Advisors, our Investor Relations Advisors.

I would like to start with the brief update on a few industry developments. NHAI is also looking to bid out projects totaling 30,000 kilometers in the next two to three years. For the current fiscal year, the Ministry has increased the target 2.5x for award and construction of national highways. The Ministry, including NHAI, has set a target to bid out 25,000 kilometers of road projects, of which 15,000 would fall under NHAI and 10,000 kilometers under MORTH and NHIDCL.

On the construction side, the target by ministry is fixed at 15,000 kilometers, of which NHAI target is 8,000 kilometers and combined target of ministry and NHIDCL is 7,000 kilometers. The Government has also approved the construction of express highway under NHDP Phase-VI totaling 1,000 kilometers with an approximately total cost of Rs. 16,600 Cr on DBFOT mode.

There is also a shift happening in this sector, the BOT model has taken a backseat on EPC and hybrid annuity model are more focused. It is expected that the projects under EPC and HAM models to be majorly awarded going forward. While we continue to concentrate on EPC projects, we shall also participate in HAM model projects in case of better margins.

Now coming to the Company. In Q1 FY17 we have secured cumulative orders of Rs. 1,091 crores. Of these two projects one is an irrigational project worth Rs. 676 crores for the Company shares in the state of Telangana and the road projects worth Rs. 415 crores in the state of Tamil Nadu on EPC basis. Our order book as on 30th June, 2016, is Rs. 4,258 crores. After 30th June, 2016, we have secured projects worth Rs. 1,335 crores in joint venture. The order has been awarded under BSCPL-KNR Joint Ventures for four laning of the Hubli - Hospet section NH-63 in the state of Karnataka by NHAI. It has to be executed in the period of 36 months. We improved the execution outlook further, we continue to bid for projects and expect to win projects worth Rs. 1,000 - 1,500 crores in the next six to eight months.

BOT projects update. Our Walayar - Vadakkancherry in Kerala which has received a provisional completion certification for 100% project on 30th October, 2015, had a total toll collection of Rs. 9.58 crores in Q1 FY17. With regards to progress on two laning of Muzaffarpur - Baruni section, NH28 project in the state of Bihar, we are pleased to inform that we have received a 75% provisional completion certificate and we are now collecting the toll collection and the toll collections stood at Rs. 1.22 crores for Q1 FY17. With this, all our BOT projects are operational and generating revenue.

During the quarter, we have infused Rs. 40 crores in Walayar - Vadakkancherry in the form of sub-debt which will ease the pressure on the project, the term on outstanding as on 30th June, 2016, is Rs. 309 crores.

Now I request Mr. Venkatram – General Manager, Finance to present the results for the quarter ended 30th June, 2016. Over to you, Mr. Rao.

K. Venkatram Rao:

Good afternoon, friends. I believe you must have an opportunity to see our results and the presentation that we have circulated and uploaded in our website. Now, I would present the results for the quarter ended 30th June, 2016.

The total revenue on the standalone basis is Rs. 303 crores in the Q1 2017, as against Rs. 171 crores during the same period last financial year, it shows a growth of around 77%. The growth in turnover during the current quarter of the financial is mainly attributable to the execution of orders received in the last year.

Our standalone EBITDA for Q1 FY17 has been at Rs. 44 crores with a margin of 14.4%. Standalone profit before tax grew by approximately 71% to the Rs. 32 crores in Q1 FY17 as compared to Rs. 19 crores in Q1 FY16. The standalone profit after tax grew by 87% to Rs. 30 crores from Rs. 16 crores in Q1 FY16.

EPC order book. Our order book as of June 30, 2016, is Rs. 4,258 crores, which includes one international project of Rs. 252 crores and one irrigation worth Rs. 730 crores. The execution timeframe for the current order book is around three to three and a half year.

Recent awarded projects. We are happy to inform that recently we have received an order worth Rs. 1,335 crores in the joint venture for the construction of four laning of Hubli and Hospet section in the state of Karnataka, which has to be completed in 36 months. On the EPC front, we have bagged an order of Rs. 415 crores from Ministry of Road and Transport in the state of Tamil Nadu which has to be completed in 24 months. With respect to irrigation sections, we are delighted to inform that we have received orders worth of Rs. 983 crores in the joint venture which has the two projects, one project worth of around Rs. 600 crores and another project worth Rs. 383 crores. Both the projects are covered under Palamuru Rangareddy Lift Irrigation Scheme and targeted to be complete within 30 months.

With this now I open the floor for question-and-answers.

- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the next question from the line of Sharvan Shah from Dolat Capital. Please go ahead.
- Sharvan Shah:** Sir, firstly, if you can give us the project specific revenue for this quarter.
- S. Vaikuntanathan:** Actually, this quarter from our Madurai project we have done turnover of around Rs. 68 crores, Trivandrum project for Rs. 44 crores, and for our Penchalakona project we have done around Rs. 35 crores. And our back to back project in Tamil Nadu, these projects have given around Rs. 70 crores for this quarter.
- Sharvan Shah:** The three state projects in Tamil Nadu have contributed Rs. 70 crores?
- S. Vaikuntanathan:** Yes.
- Sharvan Shah:** And sir, we have already received Rs. 1,700 crores plus order in flow, so how much are we targeting for FY17 and for FY18?
- S. Vaikuntanathan:** We are probably getting around Rs. 1,000 crores to Rs. 1,500 crores for this year.
- Sharvan Shah:** And sir, considering this superb execution for this quarter, in terms of the revenue guidance for 2017 are we upgrading?
- S. Vaikuntanathan:** Yes, we have already, see we are just revising our guidance. Revenue guidance would be something like Rs. 1,200 crores plus.
- Sharvan Shah:** Rs. 1,200...?
- K. Venkatram Rao:** Rs. 1,200 crores plus.
- Sharvan Shah:** And for FY18, sir?
- K. Venkatram Rao:** Around Rs. 1,500 crores.
- Sharvan Shah:** And in terms of the margins, we will be maintaining 14% kind of a margin?
- K. Venkatram Rao:** Yes, at EBITDA we will be able to maintain it to 13.5% to 14.5%.
- Sharvan Shah:** And sir, in terms of the tax rate for FY17 and FY18, this quarter also the tax rate was quite lower, so 2017 and 2018 the tax rate will be?
- K. Venkatram Rao:** Actually, what happened in this quarter, because most of the projects are 80IA projects, so our effective tax rate is only 6% for this quarter, but we think that it may be around 8% to 10% for the year end for this year.

- Sharvan Shah:** And for FY18 also it will be 12% or 20%?
- K. Venkatram Rao:** It will be around 12% only.
- Sharvan Shah:** And sir, in terms of, now how do we see with the pickup in the execution in terms of the working capital and debt for 2017 and 2018?
- K. Venkatram Rao:** Definitely, working capital will be under control, as of date the working capital is around...
- S. Vaikuntanathan:** We are only utilizing 20% - 22% of the available limit . And then in case the need be, the bank is always prepared to give actual limit but we are restricting ourselves only on the need based as we are now taking.
- Sharvan Shah:** Sir, gross debt as on June is how much?
- K. Venkatram Rao:** It is around Rs. 100 crores. It includes the Rs. 80 crores infused by the promoters.
- Sharvan Shah:** And sir anything still to be infused in Kerala BOT or now we are done after the Rs. 40 crores infusion.
- K. Venkatram Rao:** We may do up to around, because we want to bring down the debt to Rs. 200 crores in that project, so we may infuse some further money.
- Sharvan Shah:** That would be how much, Rs. 50 crores or Rs. 100 crores?
- K. Venkatram Rao:** Between around Rs. 80 crores to Rs. 100 crores.
- Moderator:** Thank you. Our next question is from the line of Prabhat Anantharam from HDFC Securities. Please go ahead.
- Prabhat Anantharam:** Sir, I guess I missed the debt figures, how much did you say the debt was?
- K. Venkatram Rao:** It is Rs. 100 crores, standalone.
- Prabhat Anantharam:** And sir, also I would request if you could give us some of the balance sheet numbers like the debtor, the inventory and other assets for the quarter.
- K. Venkatram Rao:** As far as the debtors is concerned, it is around Rs. 138 crores, inventory around Rs. 40 crores, the net working capital cycle is around 45 days.
- Prabhat Anantharam:** And sir, your creditors/payable?
- K. Venkatram Rao:** Around Rs. 140 crores.

- Prabhat Anantharam:** And sir, about your order guidance, when you said 1500 you mean to say you are targeting an incremental, so we have done Rs. 2,000 crores this year and you are targeting an incremental Rs. 1,500 crores of order in this year?
- S. Vaikuntanathan:** That is correct.
- Prabhat Anantharam:** And for FY18, sir?
- S. Vaikuntanathan:** See, now the strategy would be that whatever the turnover we are executing, to that extent minimum level we will target and anything over and above it is a plus.
- Prabhat Anantharam:** And sir, just wanted to understand, what kind of orders, so how are we approaching HAM? So you did mention you are looking at good margins over there, but if you could throw some more light on what kind of projects are you looking at and which kind of geographies are you looking for?
- T. L. Verma:** Basically, since our job booking is quite good, we are least interested in HAM but of course we will try, but focus will be on EPC mode only.
- Moderator:** Thank you. Our next question is from the line of Debesh Chattopadhyay from Adhidev Capital. Please go ahead.
- Adhidev Chattopadhyay:** Sir, just wanted to understand, now you said debt was flat quarter-on-quarter, broadly around Rs. 100 crores?
- K. Venkatram Rao:** Yes, it is flat only.
- Debesh Chattopadhyay:** And we have also done CAPEX of Rs. 37 crores during the quarter, right?
- K. Venkatram Rao:** Yes, correct.
- Adhidev Chattopadhyay:** So just want to understand your cash flow reconciliation, so Rs. 35 crores of CAPEX you have done plus you have infused another Rs. 40 crores in our Kerala BOT, so Rs. 75 crores of outgo has happened. So are we to understand that you did around Rs. 75 crores - Rs. 80 crores of operating cash flow during the quarter, is that the right way of looking at it?
- S. Vaikuntanathan:** Yes, it is there.
- Adhidev Chattopadhyay:** And sir, secondly, sir on this Kerala BOT now you had said you were looking to do around roughly Rs. 51 crores of toll collection and you have done around Rs. 9.5 crores in the first quarter. So is it on track to do that, full year thing?
- S. Vaikuntanathan:** See, in Kerala toll projects, the collection of toll is not in our hand because of the exterior factors like the preceding and succeeding packages are not completed.

Adhidev Chattopadhyay: The KMC Infra, right?

S. Vaikuntanathan: That is why we want to make it viable by this method. And we hope that the next two years, once the things are improving the toll collection will go up substantially.

Adhidev Chattopadhyay: Sir, but this year you should be doing around that, around roughly Rs. 50 crores?

S. Vaikuntanathan o: See, around Rs. 11.5 lacs we should do, and moreover, now the government is also trying to root all the vehicles through the toll passage, and if those steps also taken the toll collection will improve.

Adhidev Chattopadhyay: Sir next question, sir this project we had which had with JKM Infra, in the middle of the year, the one which was stalled and we had started again. So what is the progress so far on that project, this Arunachal project.

T. L. Verma: Arunachal project, we are now mobilizing all because this is monsoon period and there is heavy monsoon at that area, so after October the full working season, we will be doing close to Rs. 5 crores per month turnover and that will continue for, at the most six to seven months because that monsoon, again will start, but we have started mobilizing and if possible, we will try to do more work. Now upper layers are coming up, it will give a better bill.

Adhidev Chattopadhyay: Sir, like in percentage how much is completed now and what are we targeting till the year end, just to get a sense?

T. L. Verma: Now, as on date it is close to Rs. 45% work have been completed and these all earthwork and GSB, but next layer what we do, thereby we intend to complete at least about 85% to 90%.

Adhidev Chattopadhyay: By the end of the year, right?

T. L. Verma: Yes.

Adhidev Chattopadhyay: Sir lastly, just on the Telangana irrigation orders which you have won, sir there have been some news flow recently that the projects may get realigned or there may be some delays in the work starting. So are any of our projects affected by this?

T. L. Verma: No, nothing of that sort in our project. In fact, we have already built close to Rs. 10 crores and we have submitted a bill as well.

Debesh Chattopadhyay: So, work is progressing smoothly, so there are no worries.

T. L. Verma: Yes.

- Adhidev Chattopadhyay:** Sir and just last, I think I missed earlier, already you have won quite a lot of orders this year, so already won around Rs. 1,700 crores - Rs. 1,800 crores of orders this year of our share, so what is the full year target now?
- S. Vaikuntanathan:** In case of orders, which we said, in addition to that we will be trying around Rs. 1,000 crores to Rs. 1,500 crores. Because turnover this year we will be doing anything above Rs. 1,200 plus. So we will be concentrating on that and there are a lot of orders which we are getting, a lot of order inflow is also there, like so many new projects are coming up. So we will aim for those projects.
- Moderator:** Thank you. Our next question is from the line of Vibhor Singhal from Philip Capital. Please go ahead.
- Vibhor Singhal:** Sir, just my question was, sorry to repeat that again, so can you just let me know what is the order book right now? So as you mentioned Rs. 4,200 crores was the order book at June, and after that how much orders have we won in the last couple of months?
- S. Vaikuntanathan:** In the month of June we have won only Rs. 1,334 crores, it is a joint venture.
- Vibhor Singhal:** Okay, that is Rs. 1,300 crores order?
- S. Vaikuntanathan:** Yes, that is all.
- Vibhor Singhal:** And, sir there again if I come back to the execution guidance that you have given of around Rs. 1,200 crores, I mean, if our order book is at let's say Rs. 4,200 crores at June and even if I assume on execution period of, let's say, three years for the entire order book, we would probably need to do a little more than the Rs. 1,200 crores that we are targeting this year in order for us not to be delayed in those projects. So, is this more on a conservative side that you are giving this guidance or is it because maybe we are facing some kind of delays in some of the projects?
- T. L. Verma:** Your question is very valid, good point you have raised. Basically, we are on the conservative side but we intend to cross Rs. 1,500 crores.
- Vibhor Singhal:** By FY18?
- T. L. Verma:** Yes.
- Vibhor Singhal:** And sir on the margins front, any margins headwind that you see or you believe that we should be able to maintain our margins in the 14% to 15% kind of range that we have over the past few quarters also?
- K. Venkatram Rao:** No, we will be able to maintain this margin, between 13.5% to 14.5% we will definitely be able to maintain that.

- Vibhor Singhal:** Sir my last, just basically any idea if you can give us on the kind of bidding activity that we are seeing in the hybrid annuity projects. I know you mentioned that now that we have got so much of order in EPC projects that we might not be looking to actively, or let's say we will not bid aggressively in the hybrid annuity projects. But have you seen the kind of bidding activity or aggression in bidding activity come down a bit in the hybrid annuity projects from the time when it started and when there was huge variations between L1 and L2 and now has it toned down to some extent?
- T. L. Verma:** No, typically more players are coming into this HAM, so we do not want to unnecessarily bid aggressively on that front, because as I said, our job booking as such is good and we do not want to unnecessarily get into the field which is a little unknown to us.
- Vibhor Singhal:** And lastly sir, in terms of the NHAI pipeline, any specific states that you see more orders being awarded over the next six or eight months?
- T. L. Verma:** It is a little more political question, of course, I do agree, but it will be UP and the places where this election is done and UP we are not interested much to take a job, to tell you honestly.
- Vibhor Singhal:** So, UP where the projects will be more you might not be too much interested?
- T. L. Verma:** Yes, UP and Bihar mostly.
- Moderator:** Thank you. Our next question is from the line of Danish Mistry from Tata Mutual Fund. Please go ahead.
- Danish Mistry:** So just two questions from my end. One is related to your order book where you are saying that you will still be able to get orders worth Rs. 1,500 crores, so I am assuming that it is your share?
- S. Vaikuntanathan:** Yes, it is our share only.
- Danish Mistry:** Just one more point on this, see this time our share of irrigation orders went up with the Rs. 700 crores addition. So, are we looking at some more irrigation orders? Just to get some color on where is incremental Rs. 1,500 crores order book will come from.
- S. Vaikuntanathan:** See, what we have analyzed that the standards in pipeline is to the tune of Rs. 18,000 crores as we feel that we can also try a chance which includes both roads and irrigation and out of that road around Rs. 13,000 crores - Rs. 14,000 and irrigation is around Rs. 4,000 crores. So anything may come, in the mix of both things.
- Danish Mistry:** And just, so these irrigation orders would be from Telangana state only, right?
- S. Vaikuntanathan:** Mostly Telangana is coming up with irrigation.
- Danish Mistry:** And how is the margin profile over there sir, is it better than what we generally bid for?

- S. Vaikuntanathan:** See, now here the method of tendering and other thing is also quite different from other irrigation tenders, but we expect normally 10% to 11% we should be in a position to maintain.
- Danish Mistry:** And just one more question regarding your result in the P&L, can you just help us understand what was the change in the other expenditure line item? I think in Q1 it was about Rs. 18 crores, it is now about Rs. 7 crores. So can you just help us understand what has changed or moved over there?
- K. Venkatram Rao:** Rs.18 crores has become Rs. 29 crores, that is what you are asking?
- Danish Mistry:** No sir, so if you go to see slide 6 of your presentation.
- K. Venkatram Rao:** We will just come back on this.
- Moderator:** Thank you. Our next question is from the line of Sandeep Jogani from Narnolia Securities. Please go ahead.
- Sandeep Jogani:** Sir, can you provide revenue breakup in terms of road and irrigation?
- K. Venkatram Rao:** Out of our Rs. 303 crores, mostly is in the road sector, in respect of irrigation actually it is only around Rs. 5 crores.
- Sandeep Jogani:** And sir, just your comment on the irrigation order book going forward, so do we further increase our exposure in irrigation project going forward?
- S. Vaikuntanathan:** Yes, as I was telling, a lot of irrigation projects in Telangana is also coming up, we can bid for whichever is feasible we intend to bid for it.
- Moderator:** Thank you. Our next question is from the line of Alok Deora from IIFL. Please go ahead.
- Alok Deora:** Just a couple of questions I had. What would be our L1 position or any projects where we are in advance stages, any L1 positions we are having?
- S. Vaikuntanathan:** We do not have any L1 position as we know recently has come out. We have submitted bids and where we expect the results, may be around to the extent of Rs. 3,070 crores. Whereas, other tenders are yet to be submitted tenders from the pipeline.
- Alok Deora:** And these include the HAM projects as well or these are all purely EPC?
- S. Vaikuntanathan:** Only one HAM project.
- Alok Deora:** And you mentioned about your revenue guidance and your margin profile, just wanted to get a sense on your debt, so with the increasing size of operations how could the debt pan out over the

next couple of years? So currently it is around Rs. 100-odd crores, so what could be the debt numbers in FY17 and FY18?

K. Jalandhar Reddy: Actually if we look at the debt position, whatever the levels we have today I think it may continue for another two years. So, I think (+/-20%) on the current debt what we have right now. Because most of it we are concentrating on EPC model of the contracts, so EPC is generally we are managing with the advances what we are getting from NHAI or other clients. So, genuinely this is not observing any further external debt what we have to take. Secondly, most focus would be, if we are going for a hybrid model contract, there definitely we will have to infuse equity into it. So there the debt is likely to go up. Currently, unless the projects are very lucrative where they have good profit margins built in, we are not concentrating on hybrids to go in. So this is a situation right now. So, if at all we are supposed to take any hybrid contract, definitely debt is going to be to the tune of equity....

Alok Deora: Sir, one last question, that tax rate you mentioned for this year around 8% to 10% and next year around 12%, so as in, there was same change in the tax rate as in the 80IA benefit post FY17, so is that for your existing projects you would be able to get this 12% kind of tax rate, is that correct?

K. Jalandhar Reddy: Yes, right now it is applicable.

Alok Deora: So whatever projects you execute, even in FY18, which you have currently in your order book, the tax rate would be around 12% kind of levels?

K. Jalandhar Reddy: Yes.

Moderator: Thank you. Our next question is from the line of Bhavin Vethlani from Axis Capital. Please go ahead.

Bhavin Vethlani: Could you help us, what would be the execution period for the Rs. 4,900 crores order book? And if I were to assume a 2.5 years' execution, then your execution should double in the next one year.

T. L. Verma: It is a good question, nearly about Rs. 4,500 crores order is what we have right now, as you rightly said 2.5 years' time it is required. However, the new contract what we have got 10 days ago, it will take... any project, right now to say on the national highway contracts or the state highway contracts, its minimum taking six to five months to make initial revenues on that. Because entire design we have to do it ourselves and that needs to get approved. So, again we need to mobilize crushers, mobilize hot mix plant, mobilize all the equipment that is required to the project. So, it is taking not less than five to six months. So, I think whatever the orders we have received this year, they will require another four months minimum to make revenues in this. So that is a big problem what we are facing here. However, as you rightly said, more focus will be on coming two years.

- Bhavin Vethlani:** So could we assume a 50% - 60% growth over the current Rs. 900 crores in FY17-18 as against 2016 - 2017?
- T. L. Verma:** That could be, but it is occasional, it cannot be guaranteed for every time, right.
- Bhavin Vethlani:** So my question again is, would you need additional capital expenditure to execute this, because one of the things I understand from some of your peers are, most of the projects that are now coming up are PQC rather than bituminous and you need specialized machineries for them, if you could throw more light on this.
- K. Jalandhar Reddy:** Actually, recently what we got is two projects, one in Coimbatore -Pollachi and Hospet-Hubli, these need cement concrete roads only, so cement concreting is different, we hardly have any, so we need to deploy more cement concrete equipment here. I think, now the paver makers are only two vendor in the world, the best paver makers of the concrete paving equipment's are available only with two vendors. So these people are taking minimum six months now, because orders are piled up. However, we have to buy certain equipment, so we are expecting Rs. 80 crores to Rs. 85 crores of CAPEX we need to make.
- Bhavin Vethlani:** And in the projects that we have won, these are much larger projects and historical, so would there be better margin because of leverage benefit or you believe with the rising size your margins could be lower compared to the past?
- K. Jalandhar Reddy:** Sir, actually rather than comparing the past, we have to focus on next few years Here how many projects you can make bonus on, that so that is the criteria which is going to give you more margins. However, we are trying to get at least two, three projects over a short time. Secondly, on an average, irrigation has little lesser margins and certain roads works are there, the older orders which are existing they have little lower margins, the new orders, everything put together I think we are confident that 13% to 14% EBITDA we will be able to make.
- Bhavin Vethlani:** And your working capital would be in the same ballpark of 45 days or you could see an uptick because the new project goes in an execution frame, so initially your billing is low so your working capital jumps up.
- K. Jalandhar Reddy:** Yes, actually irrigation is involved here so maybe 5, 10 days it may go up, that is what we are expecting because irrigation, how their payment schedule will be we are not able to judge right now. But however, I think the experience about the first bill is good, but it cannot be taken credit for all the months.
- Bhavin Vethlani:** And just one last question before I finish, have you seen aggression in the bidding reducing and people getting the desired rates for the projects or still the competition continues to be high?
- K. Jalandhar Reddy:** Competition is there but actually it is becoming healthier.

Moderator: Thank you. Our next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Given the competitive scenario and economic headwinds, sir keeping this thing in mind what is our vision for FY2020 and how we are planning to achieve the same?

K. Jalandhar Reddy: Actually if this sort of pace continues, I think we are confident of getting 30% every year, so this is 2016 so we will be double by 2020. Actually the main thing is that not growing percentage wise, it will sustain with same sort of increment. So we are trying to do that more, rather than, this year I may jump so much but next year if you expect to do the same level, we may not. But we will standardize. Definitely we will try to do better. But again, the market inflow, because now I think another two, three years down the line this government will go away then may be next government would come. It depends on the order inflow, how it comes in. So, major is that. We have a target; very big target we have but sorry to say here...

Vikrant Kashyap: No, I do not need any guidance on that, just needed your outline.

K. Jalandhar Reddy: Yes, definitely we can make 30% and we are targeting every year. Sometimes it is more, sometimes it is less, kind of that but it is there.

Vikrant Kashyap: Sir one more thing, like we see that our revenue from irrigation sector is quite low, say by 2020 how much it would contribute to a revenue, do you have set any kind of target to focus on irrigation sector?

K. Jalandhar Reddy: Here, actually we never concentrated that if the percentage of order could be there. We just placed our bid, how it has come to us we have taken it as it is. Not that we are against irrigation, we are participating in many tenders but maybe sometimes... in irrigation what is happening is the order inflow is very less if you compare five, six years down the line and you ask me how many crores of orders that have flown out by the government of Andhra Pradesh or even on state government only, even Maharashtra, Bihar and if you compare, percentage wise also it is very less when you compare with highway. So that is the major problem here. And second thing sir, our company is now divided into three sectors, in highway sector what we are heading that is the different one and that is a larger figure. And the second one we make is the urban infrastructure division which is making all structural work, river bridges as well as flyovers and third one we made is irrigation. So, there is no target as such, but we are not concentrating in one particular division.

Moderator: Thank you. Our next question is from the line of Sandeep Dixit from Arjava Partners. Please go ahead.

Sandeep Dixit: Just wanted to understand a little bit on the margins. You said that the margins for this year are more likely to be in the 15% range, last year i.e. FY16 was around 17.2% on a standalone and 17.5% on a consol. What is the reason for the decline in margins?

- K. Venkatram Rao:** Actually, if you compare with the last year, because last year we have received around Rs. 15 crores in one of the joint venture a claim and we have received income tax refund on that interest which is around Rs. 11 crores because it is reflected in that P&L that is why the margin is high in last year. If we eliminate these extra items, then margin will be around 15%, so we are able to maintain the same margin.
- Moderator:** Thank you. Our next question is from the line of Amber Singhanian from Asian Market Securities. Please go ahead.
- Amber Singhanian:** Just want to understand this Rs. 1,3000 crores of order which we have got recently under JV, is that our share of order book or that is the total order?
- K. Venkatram Rao:** That is the total order, our share is around 50%.
- Amber Singhanian:** Secondly sir, on the BOT front, our Kerala BOT is completed since October last year and still we have not got the full COD. What exactly is stopping or where exactly the hurdle is?
- K. Venkatram Rao:** We have received the full COD, partially COD was received in May and full COD we received in October.
- Amber Singhanian:** And secondly sir, on the Muzaffarnagar project, what exactly is the situation now, how much more money we need to put in and what exactly we are thinking out doing to this project? Because earlier we were thinking that once it is completed we will give it off or sell it out something like that.
- K. Venkatram Rao:** It is still, whatever equity requirement is there we have already put that actually, around Rs. 52 crores we have put and we need not require to put further equity in that project. But right now we have received 75% PCOD for that project and we have already applied for the 100% PCOD and that we may expect to get in next one and two months. Right now, toll collection is around Rs. 6 lakhs per day for that project and we believe that once we receive the full COD and some other bridges in other stretch will be completed on Ganga river, so the toll collection may rise to around Rs. 10 lakhs per day. So with this actually the project will be okay, it can able to serve the debt. Then maybe some support required from the KNR, may be around Rs. 1 crore, Rs. 1.5 crores. Otherwise no immediate equity requirement in that project.
- Amber Singhanian:** Sir here, if I am not wrong, the presentation says that total equity is Rs. 140 crores which we have invested and if we own 51% stake then our invested money should be around Rs. 70-odd crores in that, we have invested only Rs. 50-odd crores, right?
- K. Venkatram Rao:** Yes, we have invested Rs. 50-odd crores actually.
- Amber Singhanian:** So the remaining Rs. 20 crores we need to put further in that?

- K. Venkatram Rao:** Not actually, our JV partner has put that money. Whatever equity requirement is there we have already put in that.
- Amber Singhania:** Secondly sir, on the Kerala BOT, correct me if I am wrong, I am seeing slide number 21, the total project cost was Rs. 900 crores out of which equity is Rs. 300 crores and debt is around Rs. 300 crores, so that works to be around Rs. 600 crores. Whereas there was viability gap funding to the tune of around Rs. 171 crores, right?
- K. Venkatram Rao:** No, Rs. 264 crores actually.
- Amber Singhania:** And sir, what is our intent to, why are we looking to reduce the debt in this project so significantly and not in the other projects?
- S. Vaikuntanathan:** Because this is our wholly owned subsidiary, because we hold 100% stake in this subsidiary. So in consol basis it will be the same. So, whatever is our toll collection which is around Rs. 11 lakhs per day, it will be able to serve debt, because we have to do some operation and maintenance, we have to maintain DSRA we have to keep for major maintenance reserve (MMR). With this, debt is around 200 level actually, with this toll collection it will be sufficient. So that is why we want to bring down the debt to Rs. 200 crores actually in this SPV.
- Amber Singhania:** And any plans to monetize these?
- K. Venkatram Rao:** Definitely, actually we are looking for, but I think this is not a right time to monetize because toll is not as we expected. And once these other stretches were completed, our succeeding and proceeding, after that definitely we are looking for monetizing, but if valuation is at par.
- Amber Singhania:** Sir, just last question from my side, pardon me, I am again asking on the same question that is the revenue guidance. Given the Rs. 5,000 crores of order book, three-year execution cycle, don't you think that you are being really highly conservative in terms of guiding 2017, 2018 numbers or is there something which is making you believe that 2017, 2018 will be lower and probably FY19 will be Rs. 2,500 crores odd to complete this project in time? I mean, where exactly is the disconnect, I am just trying to understand.
- K. Jalandhar Reddy:** Actually, right now if you look at the orders, whatever we are executing under execution is only about Rs. 3,000 crores, rest all Rs. 2,000 crores are just begin and somewhere some point the figure is so quantitative it is not even taken. So, such situations are there. So going forward, I think another five, six months it will take for them to just come into revenues. So by the time all these comings are into revenues, then the initial execution phase starts. So again, the full-fledged execution goes for one year. So, even after bagging an order it is not straight away approving very good revenues to our customers, it is only after seven eight months, nine months it will happen. So that is why we are now not in a position to guide you what is real.
- Amber Singhania:** No, I am just trying to understand, let's say the project cycle is three years including the mobilization and everything, today Rs. 5,000 of order book we need to execute in three years and

this guidance of Rs. 1,200 crores and Rs. 1,500 crores for 2017 and 2018, that works out to be around Rs. 2,700 crores. So that means in FY19 we will be executing the remaining part of Rs. 2,300-odd crores, right?

K. Jalandhar Reddy: Yes, that will be very good actually, those signs are likely to improve, there is no doubt.

Moderator: Thank you. Our next question is from the line of Neeta Tahilramani & Parvez from Edelweiss. Please go ahead.

Parvez: Sir, a couple of questions from my side. What is the status of the Pollachi - Coimbatore project, when are we expected to receive the appointed date?

K. Jalandhar Reddy: Actually, the correct position here is that the project has been transferred from the Ministry of Road Transport to National Highway Authority of India since this is a four lane road. So, I think the status of handing over of entire project is not yet happened, it is likely to take another one months' time. Then NHAI will full-fledged be operating this project. However, there had been a lot of issues here like tree cutting issue which is again an environment issues. So, at least this project to come into the stage of commencement, what we call is an appointed date, so that is the speed of the project will happen in another two to three months.

Parvez: And our total loans and advances that we have given to our subsidiaries would be somewhere closer to Rs. 225-odd crores, would that be correct?

K. Jalandhar Reddy: Yes.

Parvez: And we may infuse another Rs. 80 crores to Rs. 100 crores in the Kerala project to bring the debt down to Rs. 200 crores?

K. Jalandhar Reddy: No, now we are not doing anything, it is already sufficient now, whatever tolls that are coming and it will take care of it. And I think the two adjacent projects which get complete then, we will start recovery also.

Rita Tahilramani: Sir, can you help us with the other income adjustment and finance part adjustment for IndAS? Because last year if we saw it was 55 million which has moved on to 71 million in other income.

K. Venkatram Rao: That is due to IndAS , what was the interest income on whatever the interest corporate loan is given, that is due to that actually, that is as a part of other income.

Rita Tahilramani: And on the finance cost also we see it has moved from almost 25 million to 27 million, minor change, but what...?

K. Venkatram Rao: It is only minor change; it was based on utilization actually.

Moderator: Thank you. Our next question is from the line of Nitin B, individual investor. Please go ahead.

- Nitin B:** I wanted to know the total consolidated debt, I do not know if you have already answered.
- K. Venkatram Rao:** Total consolidated debt will be around Rs. 700 crores.
- Nitin B:** It was Rs. 750 crores last time when we spoke, so have we reduced the consolidated debt?
- K. Venkatram Rao:** Yes, we have repaid the debt in one of the subsidiary, so that is why it got reduced.
- Nitin B:** So we have not taken any other debt for other projects, right?
- K. Venkatram Rao:** No, we have in consol level only in three companies, one in parent company and one in Walayar and one in Muzaffarpur.
- Nitin B:** And you mentioned about the three segments, highway, urban infra and irrigation. Can you also indicate the revenue percentage which is currently coming in from this segments? You mentioned that highway infrastructure is the largest one, so could you give the percentage of revenue coming in from individual segments approximately?
- K. Venkatram Rao:** Mostly in highways, as we told irrigation is only Rs. 5 crores for this quarter, balance is basically in the highway sector actually.
- Nitin B:** Okay, everything is highway then?
- K. Venkatram Rao:** Yes, mostly everything is highway only.
- Moderator:** Thank you. Our next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta:** Sir, just wanted to know whether you have any state support agreements for both the toll and BOT projects?
- T. L. Verma:** State support agreement is compulsory for all the BOT projects, so we do have them.
- Pranav Mehta:** And sir, as you said that in Walayar the government is trying to divert this traffic on the road, so you think...
- T. L. Verma:** No, what happened actually, there is some pilferage road ahead of our project prior to that it is not fully constructed, it is not full operational. So because of that there is some diversion of traffic, so the toll collection is little less than expected.
- Pranav Mehta:** And sir, what is the premium that you are going to share in Muzaffarpur BOT?
- T. L. Verma:** That is Rs. 5 crores per year.

- Pranav Mehta:** And escalated by 5%, right?
- T. L. Verma:** 5%, exactly.
- Pranav Mehta:** And sir, another thing, this Chittagong Ring Road project has started or are you facing some issues there in Bangladesh? Has it started on the ground or you were saying that some execution problems were coming in.
- T. L. Verma:** Yes, this is has started but because it is very close to Bay of Bengal some typhoon, some kind of issues keep coming, I mean, it once happened. But again, because of monsoon and more flow in that river it is slow, but it will pick up in the next working season.
- Pranav Metha:** And sir one last question, about that irrigation project from Telangana, so sir, in these projects are you getting the mobilization advance?
- Anand Rathi:** No, we have not received advance.
- K. Venkatram Rao:** There is no mobilization advance in these projects.
- Pranav Mehta:** So that would stretch your working capital somewhat?
- K. Venkatram Rao:** Yes, that is why we told it may stretch around 10 to 15 days more.
- Pranav Mehta:** And for how long do you think this working capital will remain stretched?
- K. Venkatram Rao:** Because initially we have to mobilize further, once this billing cycle is started there will be some relaxation in the ... but by this yearend expect that it will be normalized.
- Pranav Mehta:** And sir about your current order book, has there been any scope of revision or something like that?
- T L Verma:** It will there because there will be some price escalation in this order, because whatever order book we have considered as per LOA, but once price escalation will be there, some little bit change of scope will be there, so to that extent it will be varying.
- Pranav Mehta:** Sir, so can you quantify how much would be the escalation?
- T. L. Vemra:** It is difficult because it is coming mostly either at par or a little negative in some projects.
- Moderator:** Thank you. Our next question is from the line of Sharvan Shah from Dolat Capital. Please go ahead.
- Sharvan Shah:** Sir, you mentioned Rs. 80 crores - Rs. 85 crores CAPEX in 2017, so what would be in FY18 CAPEX?

- T. L. Verma:** It will be more or less same, because the equipment that we have got for that project we have to only procure additional equipment like concrete paver. So once it is purchased, nothing much more we have to purchase in next year. So whatever purchase we have to make we have to make for these two projects these years itself and something next year.
- K. Venkatram Rao:** That is why, whatever is addition in order book it is between 8% to 10% the CAPEX requirement, if it is not a PQC project.
- K. Jalandhar Reddy:** Again, actually we are further calculating on tenders, if we get any new tenders, additional procurement might happen.
- Sharvan Shah:** So sir, out of this Rs. 4,900 crores order book how much is the cement?
- T. L. Verma:** Rs. 1,000 crores are cement concrete road.
- Sharvan Shah:** So in cement, additionally suppose we get the Rs. 1,000 crores additional cement road, then how much CAPEX that project will require?
- K. Jalandhar Reddy:** Actually each project requires new set of concrete paver and 100 cubic meter per hour plant, crew members. All that is a Rs. 30 crores equipment which is needed to procure including carriers and all.
- Sharvan Shah:** Sir, just a clarification on Kerala BOT, Reddy sir, you mentioned there will be no further equity required, but CFO sir said there will be Rs. 80 crores to Rs. 100 crores equity will be infused.
- K. Venkatram Rao:** After June actually, I mean, Rs. 40 crores we already infused as of June, after that around Rs. 80 crores to Rs. 90 crores are requirement.
- Sharvan Shah:** Yes, but Reddy sir was saying that we are not supposed to put any further equity in Kerala BOT?
- K. Venkatram Rao:** As on date we need not to put, what sir is telling from today onwards we need not require to put any further money.
- Sharvan Shah:** So this Rs. 80 crores - Rs. 100 crores will be put in this FY17 or it may come in FY18 also?
- K. Venkatram Rao:** No, FY17 only.
- Sharvan Shah:** So, you are saying is FY17 there will be Rs. 80 crores to Rs. 100 crores we will be infusing in Kerala BOT?
- K. Venkatram Rao:** Yes.
- Moderator:** Thank you. Our next question is from the line of Manjeet Rathod from ICICI Bank. Please go ahead.

- Manjeet Rathod:** I just had one question about the Kerala BOT project, so as you said the daily toll collection on that project is around Rs. 10 lakhs to Rs. 11 lakhs a day, what I understand is that there is another stretch of 14 kilometers before reaching to Walayar if I am coming from Coimbatore, so that has been developed by IVRCL and it is still two lanes whereas our project is of four lanes. So is that somehow limiting the traffic that the project is achieving at this point of time?
- T. L. Verma:** Actually, more than that, because road is not completed that is why they are taking some different route and there is some traffic diversion. But once this stretch is completed, invariably the whole traffic will come to our project only.
- Manjeet Rathod:** So by what time are you expecting that the prior stretch will be completed and that traffic will start coming on our project?
- T. L. Verma:** It is a very difficult...
- Manjeet Rathod:** I mean, because what I understand the project should already have been completed, it has already been delayed so are you seeing that it should be over in one year, two years, six months, three years, what would you say?
- T. L. Verma:** Too difficult to commit about their completion date, but we hope that they will complete early that will help us.
- Moderator:** Thank you. We have the next question from the line of Rohit Gupta, individual investor. Please go ahead.
- Rohit Gupta:** Sir, total investment in the Kerala project till date?
- K. Venkatram Rao:** It is Rs. 307 crores as of June.
- Rohit Gupta:** And the Rs. 80 crores are over and above that?
- K. Venkatram Rao:** Yes, correct.
- Rohit Gupta:** And what about the Bihar project, how much equity investment have been put?
- K. Venkatram Rao:** Around Rs. 52 crores.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for their closing comments.
- T. L. Verma:** Thank you, everyone, for your participation in our earnings call. We look forward to a promising FY17 in terms of the industry as well as the Company. We have uploaded the presentation on our Company's website. In case of further queries, you may get in touch with the Strategic Growth

Advisors, also our Investor Relations Advisor or feel free to get in touch with us. Thank you very much for participation.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of KNR Constructions, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.