



“KNR Constructions Limited Q2 FY17 Earnings
Conference Call”

November 15, 2016



**MANAGEMENT: MR. K. JALANDHAR REDDY – EXECUTIVE DIRECTOR,
KNR CONSTRUCTIONS LIMITED
MR. S. VAIKUNTANATHAN – VICE PRESIDENT,
FINANCE
MR. K. VENKATRAM RAO - GENERAL MANAGER,
FINANCE AND ACCOUNTS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the KNR Constructions Limited Q2 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 guarantee 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 an operator by pressing "*" then "0" on your touchtone telephone. 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 and Half Year Ended on 30th September, 2016. Along with me I have Mr. K. Jalandhar Reddy – Executive Director of KNR Constructions Limited and Mr. K. Venkatram Rao – General Manager, Finance and Accounts; and Strategic Growth Advisors, and our Investor Relations Advisors. I would like to start with a brief update on a few industry developments. Let me start with a few quantitative details.

We had discussed in the last quarter that MoRTH has a plan to increase both awards and execution in financial year 2017 by 2.5 times from that of financial year 2016 levels. Target for award of highway projects is set at 25,000 kilometers in the financial year 2017 as against 10,098 kilometers awarded in financial year 2016. After a slow start in this project awarded in Q1 FY2017, project awarded by NHAI has picked up pace in Q2 FY2017 at 1,486 kilometers, translating into 158% growth quarter-on-quarter basis. However, as compared to Q2 financial year 2016 there has been a decline of 8.6% in the value terms projects worth Rs. 168 billion has been awarded in the current quarter as compared to Rs. 68 billion in quarter one financial year 2017. We expect likely to improve substantially in the coming period.

Discussing the execution trend target for completion of highway projects is set at 15,000 kilometers in financial year 2017 as against 6,029 kilometers 2016. This translates into a rough run-rate of 41 kilometers per day in financial year 2016. MoRTH has indicated that pace of completion of highway projects stands at around 20 kilometers per day during the first four months of financial year 2017 as against 16 kilometers per day in financial year 2016. However, the Ministry is working towards achieving the run rate of 41 kilometers per day.

Now an update on initiatives being taken by NHAI. NHAI is adding up Rs. 20,000 crores from monetization of 30 to 40 projects in the first phase. The target is to bring out overall 30 or 40 projects initially, hoping that in the next few months they should be able to bid out first few projects. NHAI is very positive that as soon as it launches the scheme there will be sufficient number of takers.

Another thing I would like to throw light on is that NHAI has been acquiring land at an accelerated pace. It acquired 4000 hectares out of financial year 2017 target of 10,000 hectares of land up to August 2016 at the cost of Rs. 21 million per hectare as against Rs. 20.5 million per hectare in financial year 2016.

The NHAI bonds floated in the market which yields 70 to 80 basis points higher than the government securities, part funded by LIC up to Rs. 6,000 crores in the financial year. NHAI is hoping for commitment of atleast Rs. 30,000 crore from LIC. Following LIC's steps, Employees Provident Fund Organization also agreed to invest Rs. 5,000 crores. With this having being achieved the government's long standing plans to connect the country's top location is set to put on a roll. The total cost of the project is expected to be Rs. 54,000 crores, of which Rs. 34,000 crores will be raised from the market and balance from government.

Move to another segment where we are building our technical qualification is irrigation. We have ongoing packages of Palamuru Lift Irrigation Scheme in Telangana. Recently, Ministry of Water Resources released first installment of Rs. 1,500 crores to state as central assistance for 99 prioritized irrigation projects under Accelerate Irrigation Benefits Program, (AIBP). This amount has been released for 50 projects in the state of Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Bihar, Punjab, Rajasthan and Telangana. Going ahead, we expect bigger sense of irrigation scheme to come up for bidding.

Now coming to the Company. First I will like to start with the key highlights of this quarter. We have been discussing to monetize two annuity based BOT assets from some time. The Company recently, along with Patel Engineering Limited signed a share purchase agreement to sell entire equity into road, BOT assets namely Patel KNR Infrastructure Limited (PKIL) and Patel KNR Heavy Infrastructure Limited (PKHIL), to an Essel group company. Both these assets are operational annuity based BOT assets awarded by NHAI. Enterprise value of both assets put together for this transaction is Rs. 850 crores. The move is part of KNR Group's strategy to focus on the EPC business and demonstrate their ability to build and construct good quality assets coupled with timely and efficient churn of invested equity which can be utilized as growth capital.

On the order front, in Q2 financial year 2017, we have been awarded under BSCPL-KNR Joint Ventures orders of Rs. 1,335 crores for four laning of Hubli-Hospet section NH-63 in the state of Karnataka. Our share in the project is 50% which translated into Rs. 667 crores. It has to be executed within a period of 36 months. Our order book with this as on 30th September stands at Rs. 4,579 crores. To improve our execution and outlook further, we continue to bid for projects and expect to win projects worth Rs. 1000 crores to Rs. 1500 crores in the next four, five months.

Moving ahead, I am happy to share with you that we continue to maintain our track record of early completion of project and have completed Penchalakona to Yerpadu section under NH4

121 days ahead of the schedule completion. This entitled to us a bonus of 100 days, maximum as per the terms of Rs. 6.02 crores.

BOT projects update. Our Walayar - Vadakkancherry project has received provisional completion certificate for 100% project length on 31st October, 2015, had a toll collection of Rs. 9.92 crores in Q2 FY2017. With regard to progress on two laning of Muzaffarpur - Baroli section NH28 project in the state of Bihar, we are pleased to inform that we have received 75% provisional completion certificate and our now total toll collection stood at Rs. 5.2 crores for Q2 FY2017.

During the quarter, we have infused Rs. 90 crores in Walayar - Vadakkancherry project in the form of sub debt which will ease the pressure on the project. NHAI has recently issued notification for suspension of payment of fees at toll plazas on all national highways throughout the country till midnight of 18th November, 2016. The decision has been taken in order to avoid difficulties that may be faced by the highway users following decision by Ministry of Finance yesterday that currency notes of denomination of Rs. 500 and Rs. 1000 will no longer be a legal tender. Accordingly, we have stopped toll collection on our Kerala and Bihar projects.

Now I would request Mr. K. Venkatram Rao, our General Manager to present results for the quarter of half year ended September 2016.

K. Venkatram Rao:

Good afternoon, everybody. I believe you must have had an opportunity to see our result in the presentation that has been circulated and uploaded in our website. Now, I would now present the results for the quarter ended 30th September, 2016.

The total revenue on the standalone basis is Rs. 373 crores in Q2 FY16, as against Rs. 217 crores during the same period in the last financial year, a growth of 22%. Our standalone EBITDA for Q2 FY17 has been at Rs. 55.9 crores with a margin of 15%. Standalone profit before-tax grew by approximately 41% to Rs. 49 crores in Q2 FY17 as compared to Rs. 34.7 crores in Q2 of FY16. Standalone profit after-tax for Q2 FY17 is Rs. 43.9 crores with a margin of 11.8%.

Moving to the result for the half year ended September 30th, 2016. The total revenue on the standalone basis is Rs. 676 crores in H1 FY17 as against to Rs. 388 crores during the same period in the last financial year, a growth 74%. Our standalone EBITDA for H1 FY16 has been at Rs. 99.7 crores with a margin at 14.7%. Standalone profit before-tax grew by approximately 52% to Rs. 81.1 crores in H1FY17 as compared to Rs. 53.4 crores in H1 FY16. Standalone profit after-tax for Q2 FY17 has been at Rs. 74.1 crores with a margin of 10.9%.

As on September 30, 2016, the debt on the standalone basis is Rs. 143 crores and the net working capital days is 40 days. On the consolidated basis, the debt is Rs. 671 crores.

On EPC order book, our order book as of September stood at Rs. 4,579 crores, this includes Rs. 3899 crores of the project in the road sector and balance Rs. 680 crores projects are in irrigation projects. The execution timeframe for the current order book is about two and half years to three and half years..

With this, we now open the floor for question-and-answer.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, just wanted to know the impact of demonetization in our entire value chain, so right from our company to execution and down to subcontractors. So is there any impact of the same in our execution?

K. Jalandhar Reddy: Yes, so actually demonetization of the currency and all, I do not think there will be much impact for this. But however actually there is some labor payment and all which people are expecting in cash they would likely to get delayed to pay them. Some sort of minor impact which we can see in the progress of work however we will try to see that the effect is minimum.

Parikshit Kandpal: Sir, will our contracts with these subcontractors get renegotiated higher now, I mean is there a renegotiation going on because the leakage of the tax which used to happen, so now the cost will be borne by the subcontractor?

K. Jalandhar Reddy: See, here whatever we pay, everything we pay is in cash but that is all accounted cash or we will pay through cheques. So generally the understanding is that whatever we give total accounted amounts only. So there is no such transaction which we pay which is not in account. So as such there is no problem. But paying them some weekly ration payment, they expect in cash. So, one person who will be the leader he will be taking the payment and he will be distributing to everyone, so they will procure daily ration. So in those issues I expect some delay because there are no currency which we can give them due to this demonetization issue and the banks are busy and are not dispensing the rupee that we require to distribute them. Apart from this problem I do not think we have any sort of impact.

Parikshit Kandpal: Sir, the deal with Essel, I understand that these projects are already securitized so they would not be having any residual equity value left. So is it more from a deleveraging perspective?

K. Jalandhar Reddy: Yes, it is more towards that, because KNR is basically a EPC company and we are more focused on EPC. So we make our assets essentially a little lighter by that. And you know we have done the refinance, so there is not much value in that project. But we have done this at an enterprise value of Rs. 850 crores, so whatever equity we have put we will get that equity. And

one aspect is that whatever claims are there it is passed through, so whatever claims we are going to receive in this project it will come to us..

Parikshit Kandpal: But have any of these claims gone to the arbitration level where the arbitration awards are in our favor?

K. Jalandhar Reddy: No, it is under processing, arbitration award is not there but already we have put around Rs. 355 crores in these two projects under arbitration and the processing is going on.

Parikshit Kandpal: When do we expect the first award to come through?

K.Jalandhar Reddy: It may take at least one year from here.

Parikshit Kandpal: So this is under a new arbitration now or the old?

K Venkatram rao: One project for Rs. 127 crore is under new arbitration and for our Bangalore Karnataka project that is under old arbitration act.

Parikshit Kandpal: And what will be the amounts in AP07 and KNT01 in terms of arbitration?

K Venkatarm rao: Put together, it is Rs. 355 crores, one is around Rs. 127 crores and Rs. 228 crores for KNT01.

Parikshit Kandpal: Sir just lastly on this Arunachal Pradesh project which we had taken over from our subcontractor, so what is the status of that project and when do we expect to complete it?

K Jalandhar Reddy: Actually that project is under KNR and JKM joint venture, in fact JKM has gone nearly to bankruptcy stage, they do not have money. So they are unable to invest and in fact there is only 40% - 42% progress that too with our intervention. And now actually we have taken over completely, means we have not totally taken over, that is a kind of risk and cost method which we are now opting only to safeguard our interest.

Parikshit Kandpal: So how much will be the pending backlog in this work to because completed?

K Jalandhar Reddy: I think about Rs. 90 crores something is pending, that is all.

Parikshit Kandpal: And when do we expect to close it and how much will be the loss, if any, we will bearing on this project?

K Jalandhar Reddy: The problem is that right now we have mobilized all things because it has taken almost six months to mobilize because there was heavy rainfall during this season. So now I think we will take another 14 to 15 months which we have asked the department to extend. So within we will be able to complete, that is what the plan is.

- Parikshit Kandpal:** In this delay there should have been some cost overruns, you would have already got incurred, so are we going to book any losses here or will the department adequately cover us on that?
- K Jalandhar Reddy:** Actually that is the thing, there is some Rs. 6 crores mobilization advance bank guarantee was there by JKM that has been encashed by the department, so that this is coming towards the cash flow to our company also, that means to whoever is executing the thing. And secondly, we are also thinking that certain compensation to be taken and any how it is not in our books because we are doing the return cost thing only. If it goes completely bankrupted, we have his performance guarantee also. So hopefully we are little bit safe is what I can say.
- Parikshit Kandpal:** But on this Rs. 90 crores work which is pending, how much will be our margins or basically how much will be the value of work?
- K Jalandhar Reddy:** As we go so far it is good, that is what I feel. And we are not expecting anything and if I do not get large I will happy too.
- Parikshit Kandpal:** So you are trying to reach a neutral?
- K Jalandhar Reddy:** Yes. Even if I get anything it is a reckon cost and it will go to him.
- Moderator:** Thank you. We have the next question from the line of Ravi Nareddi, an Individual Investor. Please go ahead.
- Ravi Nareddi:** Sir, are you seeing any possibility of asset light model in near future like ITNL is doing the business because you are not doing any BOT project or like this?
- K Jalandhar Reddy:** BOT project, actually sir now we have enough EPC orders in hand so we are not thinking to go really in the hybrid. But however, we are examining certain projects, if at all we get at a good price definitely we will like to take it.
- Ravi Nareddi:** No, but your potentiality is too much, but what are you doing and what are the projects you are doing is two things. So what we think is you have so much stamina to do such project, I think your turnover is around Rs. 1,500, you can do 1500 project in a year also. So why not you go in asset light model? I mean to say in that way.
- K Jalandhar Reddy:** Actually, it is quite this thing. Yes, earlier if you would have seen, I think three years ago, four years ago, all the years we were carrying only below Rs. 2000 crores order book levels, suddenly we have got into this Rs. 5000 crores order book level, today. So be it EPC or be it BOT whatever, I can say we have the capability to handle these projects without doubt because we have enough cash right now to do all the projects. Right now I think except two projects everything is under revenue actually. Newly acquired new projects which is in Pollachi-Coimbatore in Tamil Nadu and another one Hubli-Hospet which is in Karnataka state, Except these two projects all have been under operation and they have been under revenues. And the

Pollachi already work we are about to start in this month, so 15th onwards we wanted to take appointed date also. So hopefully that will come into revenues by December. And the other one, it is just acquired and there is some land problem in the Karnataka one, so we are expecting to take off in three months down the line.

So looking at our capacity, we can handle one more project which we are thinking right now. So slowly the situation we are able to handle, we will be going ahead to take more and more projects. And instead of taking too many jobs we are trying to stabilize on these projects and see that good revenues come out of these projects and try to acquire in the coming near future, we wanted to take a good margin making projects only. As you would have listened to our Vice President Finance who was saying during the introduction call, there has been lot of job which coming out either with NHAI, call it even with Ministry of Road Transport and Highways. So, definitely it is not that we will be just keeping quite and satisfy with these set of orders. We will be slowly executing one project by other project and then we will see that totally we are performing and going ahead and then we will be increasing our capacity.

Ravi Nareddi: For any project and changes in top-line margin and tax rate for 2016 - 2017 and 2017 - 2018, whatever you had given in first quarter so are you changing anything now at this juncture?

K. Jalandhar Reddy: No, I think we are okay with projections what we have given because in the quarter where we will be giving all these orders, except that Karnataka one. However, Karnataka one is not going to bring much in this year, we will be able to do something in the next year itself.

Ravi Nareddi: And from 30th September to till date you received any new orders, Rs. 4,579 crores, besides that any new orders?

K. Jalandhar Reddy: Some of the tenders are being slated in the month of December and in the next 1 - 1.5 months we will be definitely participating in some of these projects.

Shri Vaikuntanathan: But we have not received any order after September.

Ravi Nareddi: So any debt will be reduced from this sell out of this Essel Group to this project, BOT project?

K. Jalandhar Reddy: Yes, of course on the consolidated basis I think around Rs. 300 crores is going to come down.

Ravi Nareddi: But up to what time it will be complete, the deal?

K. Jalandhar Reddy: Three months' time is there for all the compliance and all. Once it is there, then this year it will take place. And the advantage of this is as earlier our GM was telling, the claims and especially in the next one to two years period some portion of claims will be pass through to us. It will be an additional earning for the company.

- Moderator:** Thank you. We have the next question from the line of Adhidev Chattopadhyay from Elara Capital. Please go ahead.
- Adhidev Chattopadhyay:** Sir, mainly on the loan payments to the BOT SPVs, so I think we have repaid another Rs. 100 crores of loans during the quarter by infusing equity in the project, is that correct?
- K. Venkatram Rao:** We have put Rs. 90 crores in this Q2 and we need not put any further money. Only in case of Muzaffarpur we may have to put around Rs. 10 crores to Rs. 15 crores, that is all.
- Adhidev Chattopadhyay:** So then Rs. 200 crores, how is it being funded in your standalone, is it only from cash flows or you have taken loan from promoters or how is it been done?
- K. Venkatram Rao:** The total for this six months we put Rs. 130 crores, out of Rs. 130 crores, Rs. 40 crores has been through promoter, balance is cash flow from the parent company.
- Adhidev Chattopadhyay:** Sir just to understand in your other income, how much we booked for the quarter and loans given to the SPVs, how much have we booked from there in other income?
- K. Venkatram Rao:** The operational income we have booked around Rs. 10 crores.
- Adhidev Chattopadhyay:** Sir that is part of other income or on the other operating income, which one is it?
- K. Venkatram Rao:** Other operating income we added Rs. 10 crores.
- Adhidev Chattopadhyay:** Sir what is the terms of arrangement, what is the rate of interest and what is like the agreement now, this is like being actually coming back to KNR every quarter it is a notional interest charge, just to understand accounting.
- K. Venkatram Rao:** Yes, basically whatever the loan you have given to the SPVs you have to pay interest and initially this loan was interest free but now you have to bifurcate this loan in equity and loan. So under loan actually we are taking the rate of around 8%.
- Adhidev Chattopadhyay:** This is actually cash inflow you are getting every quarter?
- K. Venkatram Rao:** No, not cash flow, this is IndAS entry only.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Just a few questions from my side. Sir on this BOT stake sale to Essel, as I see in the presentation the debt on the two projects is around Rs. 750 crores and the enterprise value of the deal that you mention is around Rs. 850 crores, so does that mean that Rs. 100 crores is the amount of equity cash inflow that we might get, both the partners in those projects?

- Shri Vaikuntanathan:** See, on a consolidated basis the debt will be with the wholly....
- K. Venkatram Rao:** The debt is around Rs. 780 crores, so we will get somewhere around Rs. 70 crore
- Vibhor Singhal:** And that would be distributed 40:60 as equity share holding, right?
- K. Venkatram Rao:** Right.
- Vibhor Singhal:** Sir secondly on the execution front, we have reported very strong two quarters of execution and with the top-line of around Rs. 670 crores already done would you believe, I mean our guidance was around Rs. 1200 crores of top-line for the full year, do you think that that still stands at more conservative and we will be able to surpass that significantly or do you see some projects slowing you down in the coming quarters and would like to maintain at Rs. 1200 crores only?
- K Jalandhar Reddy:** Yes, we have given a guidance of Rs. 1200 crores plus.
- Vibhor Singhal:** So it might be more than that as well?
- K Jalandhar Reddy:** If you want to maintain the various factors it will be different, that we will wait for that.
- K. Venkatram Rao:** Actually what happened, this quarter actually most of the projects is in Tamil Nadu, this time this quarter is going to be a little rainy in the Tamil Nadu section. So I think works are not much suffered due to rains in the month of October. However, I think I am not expecting deep showers but Rs. 1200 crores plus will be definitely achieved, I think hopefully we will do something better. Guideline would be Rs. 1200 crores plus and we will stick to it, no doubt.
- Vibhor Singhal:** Also sir, in this quarter again we had a Rs. 5 crores of MAT credit, so our guidance for the full year tax rate would be around 10% itself?
- K. Venkatram Rao:** Yes, it is 10%.
- Vibhor Singhal:** And sir FY18, next year onwards we will have a full tax rate or do we still have some MAT credit left which we can claim in FY18?
- K Venkatram rao:** All project has been completed this year, so next year also we will take 80AI benefit.
- Vibhor Singhal:** And how much would that be MAT credit, do we have a quantum at this point of time?
- K Venkatram rao:** It is based on whatever the current order book is there we will get entire 80IA I benefit in current order book.. So we have to really see the composition of next year, then typically arrive at tax rate.
- Vibhor Singhal:** But FY19 onwards I think we will have a full tax rate, right?

- K. Venkatram Rao:** Yes, right.
- Vibhor Singhal:** So next year somewhere between 10% and 30% is the kind of the rate that we might have, depending on the composition of the execution?
- K. Venkatram Rao:** Yes,
- Vibhor Singhal:** Also sir on the order book front, if I look at the execution and order book at end of last quarter and this quarter, so is the Hubli-Hospet project the only major project that we won in this quarter, there was no other project apart from that we had won in this quarter, am I right in that?
- S. i Vaikuntanathan:** Yes, correct.
- Vibhor Singhal:** And this Hubli-Hospet project is an EPC project which is a three year period, right?
- S Vaikuntanathan:** Correct.
- Vibhor Singhal:** And you expect that to start only by next year, not in this year itself?
- S Vaikuntanathan:** Most probably.
- Moderator:** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, continuing on this Hubli, have you got the appointed date?
- K Jalandhar Reddy:** No sir, actually some land problem is there, another 10% to 15% of the land area is to be acquired to make 90% of the land available. However, we are also in the mobilization space like applying for quarries and applying permission to the quarries and all. So it is going to take some time. So we are also not in hurry to take over. So we are waiting for them to get the land parcel up to 90%
- Shravan Shah:** And sir, what was the CAPEX in first half and for the full year FY17 and for FY18 how much CAPEX we are planning to do?
- K Jalandhar Reddy:** This year it will be another Rs. 30 crore on Hubli-Hospet project. And regular guideline would be about another Rs. 30 crores - Rs. 35 crores we have towards maintenance CAPEX only.
- Shravan Shah:** Sorry sir, your voice is breaking, if you can once again summarize.
- K Jalandhar Reddy:** Actually, if you see this there is a Rs. 30 crores - Rs. 35 crores we need to infuse in this year and next coming year around Rs. 30 crores to Rs. 33 crores we have towards maintenance

CAPEX only. Apart from that as of now whatever the order book we have, next year we may have to put in around Rs. 25 crores. If we get any new job that will be requiring some setup

Shravan Shah: And in this first half how much CAPEX we did?

K. Venkatram Rao: Rs. 52 crores.

Shravan Shah: And sir, if you can give a breakup in terms of the top-line project wise then it would be great.

K. Venkatram Rao: For this quarter I will give first, Madurai project contributed Rs. 92 crores in this quarter, Rs. 160 crores for half year, Trivandrum project contributed Rs. 78 crores in second quarter and half year is Rs. 122 crores. And our irrigation project in Yedulawe have counted Rs. 20 crores for this quarter and Rs. 22 crores for half year. Selem flyover, Rs. 12 crores for quarter and Rs. 20 crores for half year. And in Tamil Nadu back to back projects and in Madhya Pradesh it contributed Rs. 86 crores for this quarter and Rs. 172 crores for half year.

Shravan Shah: And sir, this other income Rs. 13.2 crores for this quarter, was it any extra in that?

K. Venkatram Rao: That was IndAS adjustment, the interest income on whatever loan given to the subsidiaries...

Shravan Shah: No, that is in other operating income, I am talking about other income, Rs. 13.2 crores.

K. Venkatram Rao: Well, that is in other income.

Shravan Shah: So other operating income Rs. 10 crores, was it any exceptional?

K. Venkatram Rao: Yes, other operating income actually in Patel-KNR JV and KNR-Patel JV their accounts have been finalized, balance sheet adjustment that we have to take amounts to around Rs. 9 crores, due to that other operating income has been increased.

Moderator: Thank you. We have the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.

Rahul Singh: My question was on your gross block, you have mentioned in your presentation that it is about Rs. 513 crores. So can you just explain how much this Rs. 513 crores can generate in terms of revenues or execution? And incrementally, like you mentioned the maintenance CAPEX and new CAPEX, incrementally for every order of let's say Rs. 100 how much do you need to put in in the gross block, how much you need to invest in terms of CAPEX in plant and machinery equipment?

K Jalandhar Reddy: It is difficult but sort of road we are doing, it is kind of cement concrete road which is now taking about say 20% to project cost of roads, the project is more better, the equipment size would come down, percentage wise, otherwise 20% for cement concrete roads and 15% for the ordinary bituminous road.

- Rahul Singh:** And how much of the current gross block this Rs.513 crores, how much is the utilization or how much revenues can it generate without doing any further CAPEX?
- K Jalandhar Reddy:** CAPEX, I think Rs. 1200 crores to Rs. 1400 crores with this sort of what we have right now.
- Rahul Singh:** So this year you will be running at almost full utilization basically?
- S Vaikuntanathan:** Because this year we are not expecting any revenues from that Karnataka project. So whatever we are doing with the CAPEX is only for that project.
- Rahul Singh:** And net working capital requirement of 45 - 50 days that should also stay where it is going forward?
- S Vaikuntanathan:** MoRTH project and NHAI projects are quite good at payment part. I think we are able to get within 55 to 60 days. So whatever it is now, I think it is going to remain the same.
- Rahul Singh:** Sir one follow-up question, if the capital expenditure is 20% of the order book and if working capital is let's say another 15% - 20%, so 30% - 40% is your capital employed and you are generating 15% EBITDA margins. So the return on investment looks pretty healthy at about roughly 35% - 40%, is that the correct reading or am I missing something else in this calculation?
- K Jalandhar Reddy:** Actually what happens, if you see the equipment scenario keeps changing year-to-year. See, this year I have started with earthworks and if I go on to the bituminous work will be there and all other concrete and superstructure work will be there. So there the equipment part is going up actually. So it varies 5% to 10% year-to-year sir.
- Rahul Singh:** But lot of this equipment would be movable from project to project also?
- K Jalandhar Reddy:** Yes, definitely sir. But subsequently as soon as you complete this set of work you need another set of work which is ready for mobilization. Otherwise this equipment lies idle. So depending on the situation sir, it cannot be just gauged like a thumb rule kind of thing.
- Moderator:** Thank you. We have the next question from the line of Nirav Modi from Equirus. Please go ahead.
- Nirav Modi:** Sir to begin with, just wanted to understand the Dindigul - Bangalore Road project has actually not been moving, so what is the position over there and by when do we expect work to begin over there on ground?
- K Jalandhar Reddy:** Pollachi to Coimbatore one?
- Nirav Modi:** Yes, Pollachi to Coimbatore, that is right.

- K Jalandhar Reddy:** There is some tree cutting permission has not been granted by the state government. I think another 10 days we are likely to get that. So as soon as we get that we wanted to take the appointed date on that and as such the work is already to come in. Many designs were given and they have been approved also. So even the equipment like concreting equipment and all, everything is now in place. I mean to say, it is in working condition. So I think in 10 days' time we will be able to start.
- Nirav Modi:** Sir and in this project we would expect execution within 24 months?
- K Jalandhar Reddy:** Yes of course, we will have to complete in 24 months.
- Nirav Modi:** And sir, what is the position on the Chittagong in terms of execution and any comments over there?
- K Jalandhar Reddy:** The Bangladesh one?
- Nirav Modi:** Yes.
- K Jalandhar Reddy:** 4-5% progress is there.
- Nirav Modi:** So work has commenced over there basically and it is ongoing?
- K Jalandhar Reddy:** Yes, it is going on .
- Nirav Modi:** And sir, generally if you could just provide a flavor on, in the last two to three months what has been the rate of order inflows in bidding from NHAI side in terms of NHAI as well as MoRTH? And whether there has been some sort of slightly slow movement over there?
- K Jalandhar Reddy:** In the last six months we have...
- Nirav Modi:** Three months in particular, I mean, how has been the rate of order inflows from NHAI and MoRTH?
- K Jalandhar Reddy:** They are quite good, I think even today if you take 20 tenders are there coming in two and a half months' time.
- Moderator:** Thank you. We have the next question from the line of Rita Tahilramani from Edelweiss. Please go ahead.
- Rita Tahilramani:** Sir, can you please repeat the toll revenues for the Kerala project and Muzaffarpur project?
- K. Venkatram Rao:** Kerala project is Rs. 9.92 crores and Muzaffarpur project is Rs. 5.2 crores per quarter for this quarter.

- Rita Tahilramani:** And the Rs. 6.02 crores bonus which we have received for early completion, so where has that been accounted for?
- K. Venkatram Rao:** It is accounted in Q2 itself.
- Rita Tahilramani:** As a part of other operating income or other income?
- K. Venkatram Rao:** No, part of contract revenue only.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Sir, just a small query. If I look at the balance sheet for the second quarter, our investments have gone up to around Rs. 283 crores, that is the long-term investments. So is that on account of our investment into the Kerala BOT project and the Bihar project if any, or is there some reclassification from loans and advances into investments?
- K. Venkatram Rao:** It is basically as per IndAS actually, you have to bifurcate it, what are the loans you have given to subsidiary. You will get some portion to equity and some portion to the loan. So part of the equity will be non-current equity. So that is due to IndAS impact otherwise the figures are the same only.
- Vibhor Singhal:** So otherwise there is no change in investments per say, apart from the reclassification part?
- K. Venkatram Rao:** Yes.
- Vibhor Singhal:** And the Rs. 90 crores of equity that you mentioned that we have invested in Kerala BOT, how has that been accounted for in the balance sheet?
- K. Venkatram Rao:** It is bifurcated to equity and loan, so equity portion will come in non-current investment and loan portion will come to long-term loans and advances.
- Vibhor Singhal:** Sir, in that case if I add the investments and the loans and receivables, both the current and the non-current, the amount comes out to be roughly same as it was at the end of March 2016. I do not see a material jump of around Rs. 90 crores which should be there in the loans and advances plus investments put together. So have there been some write-off or some other entry that has led to this change?
- Shri Vaikuntanathan:** No, there is no other entry, other than Rs. 130 crores what we have invested it will be added.
- Moderator:** Thank you. Sir, that was the last question. I now hand the conference over to Mr. K Jalandhar Reddy for his closing comments. Over to you, sir.

K Jalandhar Reddy: Thank you everyone for participating on our Earning Call for the second quarter ended for FY17 in terms of industry and the company. We have upload the presentation on our company's website. In case of any further queries you may get in touch with Strategic Growth Advisors, our investor relation advisor or feel free to get in touch with us .

Moderator: Thank you. On behalf of KNR Constructions Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.