



“KNR Constructions Limited  
Q2 FY2019 Earnings Conference Call”

November 13, 2018



**MANAGEMENT:**

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FINANCE – KNR CONSTRUCTIONS LIMITED  
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LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q2 FY2019 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 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 - VP Finance – KNR Constructions Limited. Thank you and over to Sir!

**S. Vaikuntanathan:** Good afternoon friends. I welcome you all on our earnings call for quarter and half year ended September 30, 2018. Along with me I have, Mr. K. Jalandhar Reddy – Executive Director, KNR Constructions, Mr. K. Venkatram Rao, General Manager (Finance & Accounts) and Strategic Growth Advisors, our Investor Relations Advisors.

I will start with the brief on the key updates on the industry and then we will discuss the company’s performance.

The awarding activity from NHAI has been very subdued for the first half of financial year 2018-2019. Only 400 to 500 km of bids were awarded from NHAI since April 2018. The major reason for this is because several companies continue to face challenges in achieving financial closure for their earlier projects while land acquisitions for projects that were awarded during the last fiscal are yet to be completed.

Construction work is yet to commence on at least 150 National Highway projects covering over 5,000 km including 50 HAM projects which are yet to achieve financial closure, which were awarded during the last fiscal year.

Banks and other financial institutions were very cautious when it comes to lending for the roads and highway sector. The major concern behind lending is related to the balance sheet strength of private infrastructure players and their ability to absorb a financial hit in case the projects are delayed. Banks are also uncomfortable because of wide discrepancies in cost estimates by the bidder and NHAI.

Since there are many projects that are behind schedule, we believe that NHAI will focus more on clearing the backlog of already awarded projects and speed up the execution of the same rather than awarding more projects.

The Ministry already had taken several measures to expedite land availability. Hence the ministry is estimating the construction to touch around 11,000 km during this fiscal. NHAI and MoRTH combined a plan to come out with projects worth Rs. 80,000 to Rs. 90,000 Crores in this

financial year. The bidding activity is expected to commence from first week of December and it is expected to continue for the entire fourth quarter as well.

On the funding side recently NHAI has secured appropriate funds from State of Bank of India, LIC of India and other financial organizations. Moreover they have invited this for second bundle of National Highways under the TOT model. All these funds raised through various sources, apart from the budgetary allocations, will help NHAI to easily fund for the future projects.

Now coming to the company, order book details. As you all know we have won five HAM projects with a total bid project cost of Rs.5,611 Crores. We are very pleased to inform you that we have received sanction letters from banks to fund, 4 NHAI HAM projects. We have already executed and submitted the required documents to NHAI for financial closure. With regard to KSHIP HAM project, the concession agreement is yet to be signed and we expect this to happen by this month end. The total equity requirement for these five HAM projects will be approximately Rs.440 Crores, for which we are evaluating various options. We are in talks with our foreign investor cum developer to jointly invest in our 4 NHAI HAM projects. The negotiations and legal procedures are going on. We are also expected to pursue with NHAI for the financial closure at an early day.

Further considering our strong balance sheet position, fast cash generation and good project profile, we are very confident to finance the equity requirements of these projects. We expect the appointment days for Trichy to Kallagam project and Chittoor to Mallavaram project to come in the month of December while for Meensurutti to Chidambaram project and Ramsanpalle to Mangloor project, the appointment days is expected by January 2019. Hence we expect the execution of all four HAM projects to start in Q4 of financial year 2019. Out of total order book position of Rs. 5,865 Crores including five HAM projects, our EPC order book as on September 30, 2018 is Rs. 1,832 Crores consisting of road 75%, irrigation 25% and which is mainly from NHAI, which is 59% and states project is 41%.

In the quarter gone by we have seen change of scope in our existing order book for the following projects: KP Sagar Rs.110 Crores, Yedula Rs. 60 Crores, Madurai Rs. 35 Crores, and old irrigation projects will be Rs. 27 Crores, etc. We expect a large number of works to be awarded for the rest of the financial year wherein we plan to participate in a significant way. We will continue to bid for projects, which fits our strategy and expect to win around Rs. 2,000 to Rs. 2,500 Crores worth of order in the next three to four months.

Update on BOT projects, as you are aware, our 100% owned Walayar-Vadakkancherry project has started 100% toll collection and the current average toll collection is Rs.15 lakhs to Rs.16 lakhs per day. We are witnessing an improved toll collection on this stretch. The current toll collection is sufficient for principal, interest and O&M payments. In respect of project in Bihar that is Muzaffarpur-Barauni project, we have received 100% COD and currently we are collecting average toll of Rs.17 lakhs to Rs.18 lakhs per day based on 100% COD. In this project, we hold 51% stake and have invested Rs.89 Crores. The total toll collection has been improving

on a consistent basis. Now, I request Mr. K. Venkatram Rao, our GM to present the results for the quarter and half year ended September 30, 2018. Thank you. Over to Venkat!

**K. Venkatram Rao:** Thank you Sir. I believe you have had an opportunity to see our results and the presentation that we have circulated and uploaded on our website.

I would now present the results for the quarter ended September 30, 2018. The total revenue on the standalone basis is Rs.416.29 Crores in Q2 FY2019 as against Rs.393.34 Crores during the same period in the last financial year, a growth of 6%.

Our standalone EBITDA for Q2 FY2019 stood at Rs. 83.14 Crores with a margin of 20%. The EBITDA margin looks above our normalized number due to more revenue from the irrigation project which are yielding more EBITDA as compared to other projects and also the reduction of back-to-back subcontracting turnover. The standalone profit before tax stood at Rs. 45.27 Crores in Q2 FY2019 as compared to Rs.57.42 Crores in Q2 FY2018. The reduction is basically due to provisioning of higher depreciation in our irrigation project and also increasing interest cost due to increase in unsecured loan from the promoters from Rs.130 Crores to Rs.213 Crores. The standalone profit after tax for Q2 FY2019 is Rs.45 Crores with a margin of 10.8%.

Moving on to the performance of the half year ended September 30, 2018, the total revenue on a standalone basis is Rs.972.65 Crores in H1 FY2019 as against Rs.874.09 Crores during the same period in the last financial year, a growth of 11%.

Our standalone EBITDA for H1 FY2019 stood at Rs.193 Crores as compared to Rs.167 Crores during the same period in the last financial year. EBITDA margin for H1 FY2019 stood at 19.8% as against 19.1% in H1 of the last financial year.

The standalone profit before tax stood at Rs.129.69 Crores in H1 FY2019 as compared to Rs.124.61 Crores in H1 FY2018 a growth of 4%.

The standalone profit after tax for H1 FY2019 is Rs.119 Crores with a margin of 12.2%. Our balance sheet side as on September 30, 2018, the debt on a standalone basis is Rs.240 Crores including the promoter debt of Rs.213 Crores. And the net working capital days is 25 days.

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

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora:** Good afternoon. When you look at the revenue in the first half for irrigation projects, is it roughly around Rs.200 Crores?

**K. Venkatram Rao:** Our Konda Pochamma Sagar project, it is around Rs. 285 Crores and from Yedula, it is around Rs. 70 Crores Sir. And one more irrigation project is around Rs.13 Crores. So it will be around Rs. 370 Crores.

**Nitin Arora:** So Sir in that Rs. 370 Crores, as you stated that almost Rs. 285 Crores is KP Sagar, what could be the EBITDA margin you are taking now given that these are higher margin projects?

**K. Venkatram Rao:** It is giving more than 20% EBITDA.

**Nitin Arora:** So my question is that in the first half your revenue was Rs. 972 Crores, if you are getting Rs. 385 Crores only from irrigation, which assuming gives you 23% margin, I am just putting a hypothetical number, which comes to Rs. 88 Crores of EBITDA. If we deduct the total remaining EBITDA from the revenue of Rs. 587 Crores, rest of the projects looks like a 17% margin, is that a fair understanding or the irrigation projects are even higher than let say around 25%, then the margins of the remaining projects comes at 15%? That is I wanted to understand.

**K. Venkatram Rao:** As we already told that in some of our projects like Thiruvananthapuram and Madurai, they have also contributed. Thiruvananthapuram has contributed around Rs. 23 Crores and Madurai has contributed Rs. 95 Crores in this half year. So these projects are on the closing phase, which has given us more margins in these projects. So other than irrigation, some of the road projects which are in the completion stage. That is why EBITDA is around 20%. But our guidance is that normally it will be between 14% and 15%.

**Nitin Arora:** Okay. Margins I agree because of the two projects which are getting into the final stage and would have contributed on the bill of material. But it seems like that these irrigation projects the EBITDA Margins are upwards of 25%, if rest of the projects are at 15-16%, which is your guidance. Is that a fair understanding?

**K. Jalandhar Reddy:** In this a dam construction is involved, you normally work at a height of 20 meters. But when it comes to our projects the maximum height we had is 53 meter. So I think almost 25 to 30 meters we are completed in the KP Sagar and Yedula so as you start going up, the quantum will be less and fuel consumption is higher. So on an average the margins falls at 20% only. Imagine, a full load truck is going up to the height of 40 meters, the fuel consumption will be extremely high. It only goes in the first and second gear or in the load gear only where it consumes almost two times the normal consumption of diesel, tyre wear and tear, everything goes up. Earlier also I have mentioned, there is a good margins in the past two to three years because diesel rates and bitumen rates even steel and cement was under control. Most of the projects have been executed when the fuel price, input prices were very less, so that is why it has contributed little bit more towards the end.

**Nitin Arora:** Sir my basic question was that, assuming we still have the core order book of Rs.1,830 Crores left and we have still not got the appointed dates of the HAM projects. Of this Rs. 1,830 Crores how much we will be doing in the second half of that total order book?

- K. Jalandhar Reddy:** Actually we anticipate around Rs. 800 to Rs. 900 Crores to be executed in the half year, and including Rs. 200 Crores to 250 Crores from the new HAM projects. Even if we are able to start all 4 HAM projects by January, we will have the full quarter to execute these projects, so we will definitely be able to do Rs. 200 Crores.
- Nitin Arora:** Sorry Sir I just got confused, can you just bifurcate of the 1830 Crores, how much will do in the second half and of the new HAM can you also bifurcate?
- K. Jalandhar Reddy:** We are expecting around Rs. 900 Crores in the second half that includes the Rs. 250 Crores of the new projects.
- Nitin Arora:** When do you see EBITDA margins in Irrigation to normalize?
- K. Jalandhar Reddy:** Whatever results we have given now are the best results. Now, because the height is going beyond 20 meters, so we will be seeing the little bit pressure on the margins. The core road project margins will remain as usual. However diesel prices, bitumen & steel prices are also going up a little bit which is a little, otherwise everything is okay.
- Nitin Arora:** Okay with respect to the appointed dates, can you quantify which are the projects which will come with an appointment date in December and which will be in January?
- K. Jalandhar Reddy:** Yes, we are expecting second to third week of December for Trichy to Kallagam project and Chittoor to Mallavaram project. And other two we are expecting somewhere in January end or it may even go to February for the Telangana project. The Telangana project has an issue with the pipeline which needs to be shifted that is occupying around 12 to 13 kilometers of land out of 45 kilometers. So, only this one project is facing some issues, the other three projects are in order.
- Moderator:** Thank you. We have next question from the line of Vibhor Singhal from PhillipCapital (India) Private Limited. Please go ahead.
- Vibhor Singhal:** Good afternoon Sir. Thanks for taking my questions. This year you mentioned that in the second half you are looking at around Rs.800 to 900 Crores of revenue from the core order book and around 200 or 300 Crores from the HAM projects. So that would give us let us say around Rs. 900 Crores of order book remaining to be executed in FY2020 and beyond, and the HAM projects again. So what is the kind of topline that we are expecting in FY2020 given that FY2019 will probably be more of less of flat year on Y-o-Y basis. A related question to that is do you see enough order awards coming for us over the next four to six months to be able to shore up the order book because as you mentioned there has hardly been any ordering activity from NHAI in the first nine to 10 months, do you expect that activity to pickup in the next five to six months or because of elections nothing might happen until the Lok Sabha elections have completed in the next year.

**K. Jalandhar Reddy:** Yes Sir actually first I would answer the tenders issue, when you look at the tendering process you have rightly pointed out that NHAI has not initiated any tendering action, they were announcing tenders, but they are getting postponed. The major issues for this is the land acquisition problems and the Chairman is focusing more on the projects which they have already awarded. They have awarded almost 100 HAM projects and a few more on the EPC side. So the commencement of these projects are not happening, financial closures for majority of the projects are not happening. We have submitted financial closure documents almost one-and-a-half month ago but NHAI is lagging behind with the financial closure announcements. So until they don't see clarity on this, they will not be able to go ahead with the new tenders. However, we anticipate some bidding to happen between February and March on certain projects in Tamil Nadu, Maharashtra and North East part of India. Rest of the areas there are tenders but depending on the land acquisition and cooperation shown by respective state governments. Coming to the revenue part, we are targeting around Rs.2,300 Crores because all the new projects are likely to take off as they get fully under execution for us in January so will be in peak from March 2019 to March 2020.

**Vibhor Singhal:** So you are saying that Rs.2300 Crores of kind of topline is what we can do in FY2019-2020?

**K. Jalandhar Reddy:** Yes Sir, bit more only.

**Vibhor Singhal:** Right but that is the bare minimum that we can probably believe that we can do?

**K. Jalandhar Reddy:** Yes Sir.

**Vibhor Singhal:** And Sir does this include your assumption that execution on fifth HAM project for which we have not even received LOA that will also start by the fourth quarter and first quarter next year?

**K. Jalandhar Reddy:** Actually LOA is received, but agreement is not concluded, new government has already given clearance to go ahead with signing off the agreement. I think this month end we will be able to sign the agreement. They have circulated with us the draft of agreement to verify and give our comments which we will do shortly. After that they will take few days to clear and then we will have signing. After that five months will be given to do the financial closure. by the time I think the land also will be in position.

**Vibhor Singhal:** Sir basically on that project we would not be able to do any execution even in Q1 FY2020 only June onwards we can expect execution to start on the fifth HAM project right?

**K. Jalandhar Reddy:** Yes.

**Vibhor Singhal:** Right fair enough. Sir considering the situation that we have right now that we will have around Rs.900 Crores of order book of the core road EPC and irrigation projects remaining by the end of this year and the remaining being HAM projects. In February and March when you mentioned that there will be new orders from NHAI, would we be open to take more HAM projects or has

the management taken a call that this is what we want from HAM and from here on we will take only EPC projects?

**K. Jalandhar Reddy:** Actually Sir we have taken up HAM projects because the EPC market is overcrowded and we are not able to get enough margins on the EPC side. So, there is some sensible bidding that is happening towards HAM that is why shifted towards it. However, we are trying our best to secure some projects on the EPC side as well where we are continuously bidding for number of projects. If there are any large projects coming in EPC where the bidding is sensible we will go for that first and then if we are not getting then we will go towards HAM.

**Vibhor Singhal:** Sure sir, Thanks a lot for taking my questions and wish you all the best.

**Moderator:** Thank you Sir. We have next question from the line of Rohit Natarajan from Antique Limited. Please go ahead.

**Rohit Natarajan:** Thank you for taking all the questions. Sir if you could just touch upon those numbers that you have guided for FY2019. The order backlog of Rs.18 billion what is the quantum of work that is going to be done in this particular fiscal, because you said around Rs.900 Crores which is quite low number and plus the new HAM projects you are looking at Rs.200 odd Crores, what is its revenue guidance for FY2019?

**K. Jalandhar Reddy:** Around Rs. 1,800-1,900 Crores.

**Rohit Natarajan:** Something around Rs.1,800-1,900 odd Crores and in FY2020 this number is expected to go to Rs.2300 Crores

**K. Jalandhar Reddy:** Yes, bare minimum we should do that much. It can be Rs.2300 Crores plus.

**Rohit Natarajan:** Okay, and in terms of the equity commitment you said about Rs.440 odd Crores, how is that staggered like in terms of this year and next year. what is the quantum of amount including Magadi-Somwarpet project will be?

**K. Venkatram Rao:** Sir out of Rs.440 Crores, in 4 NHAI HAM we have to put Rs.388 Crores precisely, out of which around 50%, it means Rs.200 Crores we have to put by March 2019, . For our KSHIP HAM project, the equity requirement is around Rs.50 Crores that will come only in the next year.

**Moderator:** Thank you. We have our next question from the line of Sreyansh Mehta from Emkay Global Financial Services. Please go ahead.

**Sreyansh Mehta:** Sir, can you give me the tax rate guidance for FY2019 and FY2020?

**K. Venkatram Rao:** If you see effective tax rate comes to around 18%, but that is because we are buying a lot of assets, so there deferred tax assets are coming. On half-yearly basis right now effective tax base

after considering deferred tax is around 8%, so we expect that it will touch around 10% , on normalised basis, it will be around 20%.

**Sreyansh Mehta:** For FY2020?

**K. Venkatram Rao:** FY2020 it will be more. On a normalised basis, it will go up to 25% and after considering deferred tax it may be around 15%.

**Sreyansh Mehta:** Secondly, what would be our capex guidance for FY2019 and FY2020?

**K. Venkatram Rao:** This year we will have capex of around Rs. 130 Crores. We have already done around Rs.85 Crores in first half-year. We expect that we will go up to Rs.130 Crores and the same will be in the next year also.

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

**Shravan Shah:** Thank you. Sir coming to basically on the margin, so first half we have done 20% EBITDA margins, so in the second half can we expect a 17% to 18% margins?

**K. Venkatram Rao:** Yes, we expect around 17% to 18%.

**Shravan Shah:** On the revenue front, just to clarify once again we have said that we will be doing around Rs. 800 to 900 crores of revenues in the second half which includes 200 to 250 Crores of HAM. Is it right?

**K. Venkatram Rao:** Correct.

**Shravan Shah:** In Irrigation the outstanding order book is Rs. 460 Crores odd for KP Sagar and Yedula, it is most likely to be completed by end of March, am I right?

**K. Venkatram Rao:** Correct.

**Shravan Shah:** In terms of the overall order inflow, we said we will be looking at HAM and EPC. So net-net how much because last time you were thinking of 2000 to 2500 Crores order inflow in FY2019, so right now the number will remain the same?

**K. Venkatram Rao:** Yes Sir. We will be targeting the same.

**Shravan Shah:** Are there any tenders? Are there any flyover and also in irrigation which you think can beat in the next four to five months?

**K. Jalandhar Reddy:** Flyover tenders and all are not much, but we will have to see in the coming month or from January onwards we are expecting some tenders to come up.

- Shravan Shah:** But in irrigation are there any tenders that are likely to come?
- K. Jalandhar Reddy:** Actually the Telangana government has some tenders which they went for early election, we are not anticipating any tenders.
- Shravan Shah:** Sir, out of the old projects, which projects are likely to be completed by March?
- K. Jalandhar Reddy:** I think we have already procured the provisional project completion certificate for the Trivandrum project. Madurai project also we have applied for PCOD and we are waiting. So I think this month end or next month we will be getting the completion certificate. Even the Polachi-Coimbatore project we are now applied for provisional completion. So two months from now we will hope to get that maybe in the January.
- Moderator:** Thank you very much. We have our next question from the line of Venkatesh B from CitiBank. Please go ahead.
- Venkatesh B:** Good evening Sir. Sir, what I understand is if you could again repeat your Rs.5600 Crores of HAM projects the equity requirement in total for all those projects would be how much?
- K. Venkatram Rao:** Sir, all five projects will be Rs.440 Crores. 4 NHAI HAM will be precisely Rs.388 Crores.
- Venkatesh B:** Now out of this you need Rs.200 Crores this year and maybe 280 Crores next year, am I correct?
- K. Venkatram Rao:** Definitely this year by March, we have to put around 200 Crores and balance is based on project execution and disbursement from the respective lenders and the authorities.
- Venkatesh B:** How would be this funded as of now? I guess, you have at the end of September around Rs.50 Crores of cash balance and I think this other investments of Rs.138 Crores they can also be liquidated, correct?...
- K. Venkatram Rao:** Correct.
- Venkatesh B:** Yes, but you also need to do another Rs.50 to 60 Crores of capex in the second half, so would you be taking more debt or you think the operations can generate this much cash, second half?
- S. Vaikuntanathan:** We have already ploughed in around Rs.20 Crores to 25 Crores in all the four HAM projects towards the camp setup and other things. We are having around Rs. 160 Crores of deposits in mutual funds, so I think that will satisfy this year.
- Venkatesh B:** That was the question on the HAM. I had a broader industry level question. Now if you actually see the balance sheet of NHAI over the last three four years, the debt levels of NHAI have really bloated up. It has become very big. Thankfully for the government all these things do not get, you cannot see it in the budget deficit but obviously it has become quite large. Do you think

NHAI can continue giving out HAM project at the same pace because where are the funds going to come up from? At some point in time there could be some amount of trouble at the NHAI level, so do you think there could be a significant slowdown in ordering in a couple of years, road ordering because of the funding as an issue?

**K. Jalandhar Reddy:** Actually, you are right and that really has become a concern, but I think they are arranging some external funds from the World Bank and Asian Development Bank. So they are resolving such issues because they have less success in HAM, so we are thinking at least if not the next year but this year they will be focusing more on EPC.

**Venkatesh B:** But Sir even in EPC they only need to arrange the financing, right?

**K. Jalandhar Reddy:** They have to arrange the funds. They are taking some aid from different banks on that. They are gearing up to get external funding further, even the budget also they are expecting a good allotment.

**Venkatesh B:** The reason I am asking from KNR Constructions perspective is as of now what I see is you are focused on two areas, roads and irrigation projects, now roads is the larger pie, so what is that you are doing from a two to three year perspective. At some point in time, road ordering will possibly slowdown. So are we doing something to think about diversifying out into other areas, so that our long-term growth is maintained? So what are the steps you are taking for the longer-term?

**K. Jalandhar Reddy:** Yes, we are gearing up on various urban infrastructure development projects like flyovers. With our current experience in Flyover projects we will also be able to step into the elevated metros. And apart from that we are also planning to enter the railway project and we are looking for mining operation projects. So all these we are now putting in track so that in future we should not have these issues. However, there will be other opportunities that will come up from the rivers interlinking projects as well. So I think infrastructure needs to be developed and I do not see any effect to this till 2025 atleast.

**Moderator:** Thank you Sir. We have the next question from the line of Niteen S Dharmawat from Aurum Capital. Please go ahead.

**Niteen S Dharmawat:** Thank you for this opportunity. My question is what is the total consolidated debt?

**S. Vaikuntanathan:** Total around Rs. 714 Crores is the consolidated debt.

**Niteen S Dharmawat:** Okay, so we have repaid certain debt during this quarter? I think it was around 800 last quarter, right?

**S. Vaikuntanathan:** There is a repayment in Walayar also. We have brought down the liability and so the bankers have also agreed for reduction of interest rates so we have brought down the liability in Walayar.

Otherwise more or less in standalone basis our liability is only Rs. 230 Crores plus that Barauni-Muzaffarpur there is Rs.318 Crores outstanding is there and Walayar it is almost Rs. 164 Crores is there.

**Niteen S Dharmawat:** And for this HAM project what is the approximate cost of funding that we have considered where we are taking the financial closures to the banks?

**S. Vaikuntanathan:** The bankers have sanctioned at 9.45% interest rates and the same interest rates the documents have been executed and submitted to the NHAI also.

**Niteen S Dharmawat:** When are we expecting the closure from NHAI? You mentioned that there are some delays from NHAI to announce since you have submitted this around 1.5 months ago, so will you be expecting the closures coming in from there?

**K. Jalandhar Reddy:** Actually we have submitted all the documents that are required. We have provided all the details according to the contract with NHAI, however they are asking for clarifications which are not there in the contract. NHAI is asking us to go beyond the contract items which is not possible for us also and the third party also. This problem has cropped up due to the new finance member who has recently joined. So I think slowly he will understand and he will resolve the issues. We are expecting the financial closure to happen in the first week of December.

**Moderator:** Thank you. We have the next question from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

**Karthikeyan:** Just wanted to understand regarding the private equity investors whom we are negotiating with what kind of valuation expectations are there currently? Are they looking at investing at book, above book, below book, some thoughts on this?

**K. Jalandhar Reddy:** Valuation will be done on COD date based on actual project expenses incurred with assumptions agreed as on date. and the final negotiations are going on.

**Moderator:** Thank you Sir. We have the next question from the line of Parvez Akhtar from Edelweiss. Please go ahead.

**Parvez Akhtar:** Good afternoon Sir. Just a couple of questions from my side. What is likely to be our depreciation trajectory in H2 of this year as well as in FY2020 because there has been a bit of volatility there?

**K. Venkataram Rao:** , in H1 we did a depreciation of around Rs. 75 Crores out of that in our irrigation projects, we have taken the useful life of three years. That is why you see this half-year depreciation is more compared to the last half-year and we expect that these project will be completed by March and so this year depreciation will be in the same range only. For H2 it will also be in the same range, around Rs. 75 Crores and for next year also H1 will be more after that it will be normalized. At

that time the depreciation for these projects will be completely written-off from the books. So we expect that next year in second half depreciation will come down slightly compared to the first half-year of the next year.

**Parvez Akhtar:** Sure Sir. The other question is we have seen a sharp reduction in debtors in your balance sheet. I think in the first half from almost about Rs. 232 Crores to just Rs. 107 Crores, so it is largely because of the GST impact or is there something more to it?

**K. Venkatram Rao:** We have received lot of collection. As you know in our Yedula project there was almost Rs. 100 Crores was stuck. Now we have received all of that and there is no outstanding. That is why it has drastically reduced, so it is not due to GST, it is due to the realization of the debtors from the clients.

**Parvez Akhtar:** Lastly if you could give the revenue breakup between road and irrigation projects in Q2?

**K. Venkatram Rao:** Percentage wise, almost 40% for irrigation and 60% from the road actually.

**Parvez Akhtar:** This is in Q2?

**K. Venkatram Rao:** I am talking about the half-year basis.

**Parvez Akhtar:** Would it be possible to get these numbers for Q2?

**K. Venkatram Rao:** Q2, it will be around 35% for Irrigation.

**Moderator:** Thank you Sir. We have our next question from the line of Priyankar Biswas from Nomura Securities Limited. Please go ahead.

**Priyankar Biswas:** Good afternoon Sir. My first question is on if you can give the project wise land availability of the HAM projects as on date?

**S Vaikuntanathan:** What we have estimated is we will get the appointed date of two projects, Trichy to Kallagam and Chittoor to Mallavaram by December. There the land acquisition is going on at a fast pace. around 60-65% land availability of 3H for both these projects is already done by the department. In case of Meensurutti to Chidambaram project also around 60% land acquisition on 3H basis has been completed. Only for the Ramsanpalle to Mangloor project it may take some time because of the pipeline shifting, though land acquisition to the extent of 40% to 45% has been completed. The pipeline shifting has caused a little bit of delay.

**Priyankar Biswas:** Sir, I think, in your past calls you have said that this Mangloor project in Telangana also had some land in the reserve forest.

- S. Vaikuntanathan:** That is what we explained that it may happen in the end of January or just by February first week it should happen, but this pipeline issue has to be decided.
- Priyankar Biswas:** No Sir, I am talking about the reserve forest issue.
- S. Vaikuntanathan:** Reserve forest issue is there.
- Priyankar Biswas:** Sir, is that resolved, the reserve forest issue?
- S. Vaikuntanathan:** That is in stage II. They have sent to Chennai for clearance. It is a normal process.
- Priyankar Biswas:** Sir, absolutely the last question from my side. If you can give what is the pending backlog for the Arcot-Villupuram and let us say Madurai whatever is leftover?
- K. Venkatram Rao:** Arcot-Villupuram is around Rs. 35 Crores is the balance order. For Madurai project it is around Rs. 90 Crores is the balance project.
- Moderator:** Thank you. We have the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Congratulations for a good set of numbers. This HAM platform deal which we are doing, has the binding agreement already signed or what is the update on that?
- S. Vaikuntanathan:** No, it is in the process. It is not signed so far.
- Parikshit Kandpal:** Right now DD is going on?
- S. Vaikuntanathan:** Yes, DDs are going on. DD is almost completed. Only final discussion is going on.
- Parikshit Kandpal:** Sir, when do we expect this to get closed?
- S. Vaikuntanathan:** We are also trying to link up this up with financial closure. So both should happen simultaneously.
- Moderator:** Thank you. We have the next question the line of Amit Saxena from One Capital. Please go ahead.
- Amit Saxena:** The first question is what is the reason behind in the increase in employee expenses compared to the last quarter in September quarter?
- K. Venkatram Rao:** This year we have started mobilizing for our four HAM projects. We have started mobilizing the employees for that. So already we have incurred almost Rs. 80 Crores of the investments in these SPV from the EPC side, so we have already identified the site and we are acquiring the land for that and putting the camps, so for that actually these staff expense has increased.

- Amit Saxena:** Sir, my next question is, is there any impact of crude oil price changes on our business?
- K. Jalandhar Reddy:** There is an impact.
- Amit Saxena:** Is there any significant impact? Can you quantify that?
- K. Jalandhar Reddy:** We have done certain calculations based on that an average of around 1.5% escalation has taken place for all four projects. The calculations will again happen when we are near the appointed dates. Anyways escalations can be taken care in the concession so it is not a big worry for us.
- Amit Saxena:** Sir, my last question is what is the status of private equity transaction?
- K. Jalandhar Reddy:** The final discussions and negotiations are going on. Legal documents and all are also being exchanged. So we are looking at another one months time we shall get the closure.
- Moderator:** Thank you Sir. We have our next question from the line of Faisal Hawa from Hawa & Company. Please go ahead.
- Faisal Hawa:** Good afternoon. My question is that if we have 1800 Crores order book pending on EPC side and this order book I suppose is almost one and a half years old then why are we just budgeting it only for 900 Crores turnover in this financial year. This could be much more because there is no other problem in this order book?
- K. Jalandhar Reddy:** Actually these works have been taken up when the land was available at 50% to 70%. So, as we are moving towards the end, we have almost completed 80% works in most of the projects except for Hubli Project. Looking at these situations there have been some land problems which are there; however, we are trying to resolve and these are taking time. If they get resolved in time then we will be able to do higher in this year otherwise it may spillover to the next year first quarter.
- Faisal Hawa:** So there is a good chance that we do more EPC in this financial year itself, something like 1300 Crores is possible?
- S. Vaikuntanathan:** We have taken into account all the possibilities and we have given the targets. This time we have given you the the maximum figures that we can reach.
- Moderator:** Thank you Sir. We have the next question from the line of Sriram Kumar from Spark Capital. Please go ahead.
- Sriram Kumar:** Thanks for the opportunity. Sir I have a couple of bookkeeping questions. Can you give me the split of irrigation projects, order book?

- K. Venkatram Rao:** Irrigation for KP Sagar we are pending order book of about Rs. 256 Crores, and Yedula is Rs. 50 Crores and one more old irrigation project of around Rs. 35 Crores, and one irrigation project that it is on a back-to-back basis that is around Rs. 120 Crores. So this is the irrigation order book.
- Sriram Kumar:** My second question is on the EPC cost of the HAM projects. Sir, say for example, if I take one project, let us say Trichy to Kallagam the EPC cost is around Rs. 750 Crores, am I right Sir?
- Sriram Kumar:** The question I am arriving at is Sir, we have term loans sanctions of Rs. 380 Crores for the project and equity requirement of Rs. 95 Crores and the NHAI support is around Rs. 430 Crores. So in total that is we have an EPC cost of 910 Crores. When we discussed I got the EPC cost of Rs. 750 Crores so what explains the difference Sir?
- K. Venkatram Rao:** It will have GST because the EPC cost is excluding the GST. There will be soft cost in the SPV, there will be interest during construction on the SPVetc .
- Moderator:** Thank you very much Sir. Ladies and gentlemen, that was the last quarter. I now hand the conference over to the management for closing comments. Sir over to you!
- S. Vaikuntanathan:** Thank you everyone for your participation in our earnings call. In case of other queries you may get in touch with Strategy Growth Advisors, our Investor Relations, or please feel free to get in touch with us. Thank you very much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of KNR Constructions that concludes this conference call. Thank you for joining us. You may now disconnect your lines.