



“KNR Constructions Limited
Q1 FY2022 Earnings Conference Call”

August 13, 2021



MANAGEMENT:

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*KNR Constructions Limited
August 13, 2021*

Moderator: Ladies and gentlemen, good day, and welcome to KNR Constructions Limited Q1 FY2022 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 performances 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 you Sir!

S Vaikuntanathan: Good afternoon everyone and a warm welcome to all you present on the call to discuss the financial results for Q1 FY2022. Along with me, I have, Mr. K. Jalandhar Reddy- Executive Director, Mr. K Venkatram Rao - General Manager (Finance & Accounts) and Strategic Growth Advisors - our Investor Relations Advisors.

I hope all of you and your loved ones are healthy and safe in the wake of the ongoing pandemic and the floods across the country.

I would like to highlight a few industry updates first and then we will discuss the company's performance. Infrastructure development in the country continued the robust momentum despite facing multiple challenges due to the ongoing pandemic. In the FY2021, the construction of highways reached 35.5 km per day which is the highest ever construction speed of National Highways in the country as per the Union Minister of Road and Transport Highways Honorable Nitin Gadkari.

In Q1 FY2022, a total number of 2,284 km was constructed which is 25% on a year-on-year basis. The Government is planning to add **world-class** National Highways at a pace of 40 km per day by 2024. We believe that this ambitious target is achievable driven by various initiatives like support to contractors, direct payment to subcontractors, relaxation in contract provision and food and medical facilities to onsite workers.

Over the past few years, the government and various institutions have undertaken multiple initiatives to boost the pace of highway development and the financial health of the infrastructure developers. The government is planning to set up a dedicated funding agency for the highway sector similar to dedicated funding agencies for the power or the railways sector.

According to the recent announcement of Honorable Minister Nitin Gadkari, he would discuss with the RBI Governor on the development of this came for using the country's forex reserves which has a record higher \$640.57 billion for the July FY2021 for the infrastructure development. In another positive development by the NHAI, the extension of financial closure timeline and waiver penalty for delay in submission of bank guarantees and the road developer



*KNR Constructions Limited
August 13, 2021*

impacted the localized lockdown and COVID-19 has been sought to Ministry of Road Transport and Highways. We believe such initiatives are positive for the company and infrastructure development sector as a whole. Economic activities have quickened the pace with a sharp downturn of active COVID-19 cases, easing lockdown norms and on increasing factory activities. As a result, toll collections through fast track arose 15.5% to Rs. 2976.4 Crores in July 2021 as compared to June 2021. The toll collections level have almost reached the pre-COVID level. With rising penetration of vaccination program and easing lockdown across the country, the business consumer sentiments were expected to improve further, we expect this will, in turn, support the toll collection momentum.

Now coming to the key update for the company. The project execution has gathered pace post easing up lockdown in Q2 FY2021 which was impacted to some extent due to the sudden shocks of COVID-19 cases in the second wave. The company's priority remains the well-being of employees and their families. The company's average operational effective in this quarter stood at 95%. As mentioned in the previous concall, the workforce reached the pre-COVID level, and the company is not witnessing any shortfall in the workforce. The percentage of physical progress as on June 30, 2021, for the HAM projects which are as follows:

Chittor to Mallavaram is at 92%, Ramsanpalle to Mangalore is at 89%, Trichy to Kallagam is at 73%, Magadi to Somwarpath is at 39% and Oddanchatram to Madathukulam is at 29%. During the quarter, the execution has primarily driven by HAM projects and one of the above HAM projects that is Chittor to Mallavaram KNR Tirumala has achieved PCOD from May 10, 2021, which is 142 days ahead of the schedule.

The company has entered into a share purchase agreement with Cube Highways and Infrastructure III Private Limited for three projects. Deal to divest these three HAM projects is on track. Out of the Rs. 625 Crores equity requirement for all the five HAM projects, the company has already invested Rs.425 Crores as on June 30, 2021. The incremental equity requirements stand at Rs. 135 Crores and Rs. 65 Crores for FY2022 and FY2023 respectively. You can refer to slide number 24 of our investor presentation for details on each HAM projects.

The tentative equity requirement for the two new Kerala HAM projects where concession agreement was signed is around Rs.430 Crores and Rs.100 Crores approximately for the AP HAM projects where the company is L1 during the Q1 FY2022 which needs to be invested by the company over the period of two years to 2.5 years from the appointed date.

The toll collection of our Bihar projects that is Muzaffarpur-Barauni, the collection in Q1 FY2022 has been Rs. 12 Crores. The toll collection was impacted due to the second wave of COVID induced travel restrictions, continuous rain, floods and major repair been undertaken in two approached businesses resulting in restrictions in heavy vehicle movement, passenger traffic movement which resulted in lower business activity and reduced toll collection. The company has invoked the force majeure clause as per the concession agreement and is under discussion with NHAI for eligible compensation.



*KNR Constructions Limited
August 13, 2021*

Now coming to the order book position during the quarter, the company has received one HAM project for a value of Rs.1,042 Crores BPC in the state of AP. As on June 30, 2021, the company had an outstanding order book position of Rs.6,596 Crores. The EPC projects and HAM projects constitute 54% of our total order book while irrigation projects come to the remaining 46%.

Client wise, 78% of the order book is from third party clients and the balance 22% is from captive HAM projects. The third-party order book or a non-captive order book which accounts for 78% of the total order book position is skewed between state government contracts with 65% whereas 2% is from Central Government and the balance 11% order book is from other players.

The estimated EPC cost for the new HAM project will be around Rs.4,100 Crores and the cost of the new EPC contract is Rs.983 Crores. With this, the order book of the company will be Rs.11,679 Crores with the EPC road projects, and HAM projects constitute 74% of the total order book where irrigation project constitutes the remaining 26%. The current order book position is robust and provides visibility of execution over the next three years. The robust project pipeline and the ready DPR under the Bharatmala Project should accelerate the project awarding activity going forward.

The process of submitting further bids for the road project is currently in progress. The average ticket size of the tender for each project is about Rs.1,000 Crores. Based on the shortlisted project for the bidding pipeline, the company is targeting a further order inflow of Rs. 2,000 Crores to 3,000 Crores for FY2022.

I will now request Mr. K. Venkatram Rao, our GM to present the results for the quarter ended June 30, 2021. Over to you, Venkatram!

K. Venkatram Rao:

Thank you, Sir. Let me now take you through the Q1 FY2022 standalone financial performance. The revenue for the quarter grew by 54% year-on-year to Rs. 740 Crores as compared to Rs. 479 Crores in FY2021.

EBITDA for Q1 FY2022 witnessed a growth of 52% to Rs.143 Crores as compared to Rs.94 Crores in Q1 FY2021. EBITDA margins for FY2022 remained largely stable at 19.4%. Net profit for the quarter was Rs.73 Crores as compared to Rs. 40 Crores in Q1 FY2021.

Let me quickly take you through the consolidated performance. The company record of 54% year-on-year growth in the total revenue from Rs.523 Crores in Q1 FY2021 to Rs. 807 Crores in Q1 FY2022. EBITDA came in at Rs. 203 Crores in Q1 FY2022 as compared to Rs. 130 Crores in the same period last year. EBITDA margin in the current quarter stood at 25.1%. Profit after tax stood at Rs. 108 Crores in Q1 FY2022 as against Rs. 42 Crores in the same quarter last year.

Now moving onto the standalone balance sheet. The company continues to maintain a strong balance sheet. As you are already aware that the company has become debt-free in FY2021 on a standalone basis. The working capital days were further reduced to 66 days as compared to 82



*KNR Constructions Limited
August 13, 2021*

days in Q4 FY2021 which is primarily due to the considerable reduction in the receivables. The consolidated debt as of June 30, 2021, is Rs.982 Crores as compared to Rs.734 Crores as of March 31, 2021. The net debt to equity as on June 30, 2021, on a consolidated basis, stands at 0.4 times as compared to 0.3 times as of March 31, 2021.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Congratulations on a good performance. My first question is on the Irrigation project, now we have about Rs. 2,000 Crores of the irrigation project, so please just update from the status of execution whether the execution is started on all the projects, all approvals are in place, are these projects financially closed, that was the first part from the execution? The second question is on the balance sheet exposure on the irrigation segment, what is the total outstanding that unbilled revenue and payment flows from the government, so have we started seeing payment given the second wave is now largely behind, is there any improvement?

KVR Please repeat your first question.

Parikshit Kandpal: The first question is on the total order book of Rs. 3,000 Crores of irrigation, so what is the status update on the execution, has all the work started or still we are awaiting and show some issues and acquisition so has that been sorted out of Rs.3,000 Crores if you can update us on the execution status and the second thing is on the balance sheet exposure on the irrigation segment and whether we are receiving the payments on time now? That is my question.

KVR As far as irrigation project is concerned, except KNR HES this is around Rs. 700 Crores of the project where landing issues are there, as on date also this project has not yet taken off but other than these actually all other projects like Rs. 1,600 Crores that project and Mallanna Sagar project is almost 95% completed and the water also we have completed around 58%, so except this KNR HES JV, other than all projects are in the good pace and as far as balance sheet exposure is concerned, as on date we have around Rs. 650 Crores of the receivables we have to get from the Government of Telangana with respect to irrigation and we expect that next two months to three months actually we accept the largely this amount should come back to us.

Parikshit Kandpal: In the next two months to three months, so what is the total pending dues as of now that the bills have been committed and payment has not come, so how much of that amount is overdue now, so which should have come in actually?

:KVR That is around Rs. 270 Crores bills what we have submitted and payment we have not received and bill and unbilled all put together is Rs. 650 Crores.



KNR Constructions Limited
August 13, 2021

Parikshit Kandpal: So, about Rs. 270 is what you have submitted but it is overdue, you are expecting this to come in the next two months to three months?

KVR Yes.Rs. 270 Crores that we are expecting to receive.

Parikshit Kandpal: Just last thing is you have not been asked to stop any work, right because it is a little issue with the Ministry of Water that our work has to be stopped over some arbitration issues going on between the AP and Telangana Government, so that is not impacted acquisition, right, there is no direction for it to stop their work?

K Jalandhar Reddy: State Government has not instructed to stop. The works are floated by the state government and we are expecting the state government to issue any further stop instructions otherwise we are not authorized to stop also.

Parikshit Kandpal: Okay. Sir every time this issue is coming on the payment on irrigation, so in terms of bidding strategy ahead, so we have seen the segment grow a big-time for us, so in future are you looking to have more irrigation projects on the state and if not then how will you look at diversifying the order book beyond the irrigation segment?

S Vaikuntanathan: Actually, irrigation concerned it has become quite seasonal because after the first pandemic, there was a regularized scheme of payments were done but again that second pandemic has hit in the month of April-May, early June, so these times, we had again the funds were diverted to this COVID management issues and all that, again now the election has come up, so some one of the by-election is happening so there also some funds are been diverted. As a state government is behaving in a different fashion but otherwise because of this special events kind of things they are unable to process the bill sometimes but otherwise we might have seen after the first pandemic, they were regularly paying the bills and we have received at least five months to six months we have received continuation monthly bills also. It is not that we can equate every time and just split out of the section because it is also improving the EBITDA levels, the margins are also quite good in this so, definitely, okay it is a kind of if you have any other alternate definitely, we can think of alternates but otherwise, this seems to continue. If we get proper tenders definitely, we would like to participate and if they are bank supported bids then definitely, we are there.

Parikshit Kandpal: Okay Sir. Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Niteen S Dharmawat from Aurum Capital. Please go ahead.

Niteen S Dharmawat: Thank you for the opportunity. As we are growing rapidly, and you are getting new projects and expanding so just wanted to understand what the management bandwidth available to go to the next level from here?



*KNR Constructions Limited
August 13, 2021*

K Jalandhar Reddy: As far as management bandwidth is concerned we have that sort of improvement in the management level as you know that we have introduced Senior Vice President, Vice President even we have higher up positions in the company, improved with professional in the project level as well in the headquarter monitoring level and even in administrative stints, so bandwidth wise is concerned, I think we are geared up for complete upcoming two years to three years. I cannot straightaway say for three years but I am okay with two years concerned and we would like to improve time to time which is not a game that we have improved this time and we are just halting, every time there is a new innovation which is coming up whereas want to adapt, go for digital construction, go for nice methodologies in administration, all that we want to opt, so we are regularizing and we are trying to keep the things in order and improving I mean to say.

Niteen S Dharmawat: Got it. One more question connected to this, so as we are growing, what are the limitations that you see in ourselves that could come in our way while we are growing because we have reached to a level now and we are going in a different league in terms of topline and the performance, so what are the limitations that you see over here?

K Jalandhar Reddy: Here are our limitations concerned, Bharatmala Pariyojana is still to continue for another two years, so definitely we are okay with it. Again irrigation projects are also in line to projects ourselves for two years to three years line is clear, get onto that and get the revenues and lot of improvements that are happening in the city levels, town levels and all like urban traffic like recently we have bagged a size of Rs. 1,200 Crores flyover and which is almost a 11 km length four lane flyover, so every city is trying to improving such a way and that is lot of schemes that are coming out, may be little bit slowdown we are observing in State Government levels because of COVID or the revenue losses due to COVID and all, otherwise I do not see any issues we can face in future and every time we used to see what happens after ten years but every time the new concepts are coming up and National Highway Authority of India is already announced about their expressway concept and Greenfield highway concepts due to which I think enormous highways are being converted like you might have seen lot of job base rollouts from Delhi-Mumbai Expressway as well now the Chennai to Bengaluru Expressway is already they have called for tenders and work is likely to start up and now they are thinking of Hyderabad-Bengaluru and there lot more things are coming up like that, so they have identified 22 express highways which are now part and parcel of Bharatmala Pariyojana. Things are going to come up, so every now and then we are going to get a new concept and new job.

Niteen S Dharmawat: Got it. Thank you so much. In case I have any additional questions, I will come in the queue.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Company. Please go ahead.

Faisal Hawa: My question is regarding any kind of early completion bonus is anywhere is expecting this year and if it is so what could be the quantum and any arbitration you feel that could be settled out of court and we get the money early and secondly Sir, how do you feel that whole flyover opportunity could open up, you feel that we could even get like three or four such flyovers and if



KNR Constructions Limited
August 13, 2021

you could just tell us whether we are ever going to have any kind of different kind of hiring on middle management or upper management level to now take care of the new level of growth?

K Jalandhar Reddy: The first thing which I would like to answer about is that the flyover projects are no doubt they have been slowed down now because of the revenues not much enough for the state highways state government to develop all these or municipalities also to develop this but in near future after one year to two years I think they will be gearing up and definitely they come up with, they have a huge big scheme in each city everywhere the traffic is grown to so many multifold and everywhere the traffic jams are happening, so there is no depth, the business is very huge and very big opportunities are available, we thought maybe just little bit slow down we are observing because of the pandemic or COVID, so that is easing out. The management bandwidth is concerned, definitely, as I earlier told we are considering every new concept to be adopted and second level management we hire up also been hired and they have been under payrolls for company, and we are looking every opportunity that wherever we can improve and make the things progressive.

Faisal Hawa: Sir, allow me, you had almost 40 years old experience in road, so would you aggregate my statement that this probably it is the best period, you could have for infrastructure and road development and you have almost reached like a very watershed moment in the history of road construction and you are very lucky that at this point tough time balance sheet is absolutely in order, so you could be in a good position to take advantage of this opportunity and due to your great efforts during the last 40 years?

K Jalandhar Reddy: Yes, of course. We will look at all the levels but ideally did not get your question about what you need to know?

Faisal Hawa: This is like absolute height or the pinnacle of what could happen for road construction, it is like all the four-six coming together to give you a very good tailwind?

K Jalandhar Reddy: Yes. Actually recently we have increased the ticket size like Rs. 2,000 Crores – 2,500 Crores ticket size projects we have increased and the turnover is squeezed into very few jobs, so definitely the growth can happen and the engineering concern every year there is an improvement, every now and then there are been new-new concepts, new-new equipments, new-new designs which are in place for the higher structures or heavy-duty structure even NHAI is also adapting very huge and big structures into their projects, so definitely we are adapting new-new technologies and we are trying to keep up our credibility.

Faisal Hawa: My question about the early completion bonus remains unanswered.

K Jalandhar Reddy: Early completion bonus concern, Tirupati we had early completion in that project. Definitely, we may get around without hassles we should get Rs. 9 Crores and odd bonus and the claims concerned I think our Odisha project the award was already I think courts have already awarded



*KNR Constructions Limited
August 13, 2021*

and NHAI was asked to deposit the money, it is in the state of that, so we may recognize that payment in the coming one or two quarters.

Faisal Hawa: That is the first answer? The arbitrage? The Odisha arbitrage same will be substantial?

S. Vaikuntanathan: Yes, it is substantial.

Faisal Hawa: Thank you so much Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Good evening Sir. Thanks for taking my question and congrats on great execution once again in a very challenging environment. Just wanted to pick your brain on we have already done around 747 Crores-750 Crores of execution in this quarter and we are already 45 days into Q2, so I mean in your opinion what is the kind of topline we could do for this year, any kind of guidance that we would want to give as you have earlier given the Rs. 3,000 Crores guidance, so any chance that we could exceed, what is it looking right now in terms of overall topline?

S. Vaikuntanathan: Overall topline concerned it is we are all geared up to do around Rs. 3,400+ crores but again that pandemic issues, even the third wave issues we have not taken anything into that consideration and we have little bit disappointment due to the old projects being completed and new projects are not been taken up because the Kerala projects which we have bagged recently that there is some land problem and they would start only after five months to six months even hefty time is also there. There may be a delay in starting those projects for two months to three months and the Mangalore project which is taken around Rs. 1,100 Crores project that is likely to start, actually could have started one month ago but we are expecting another two months delay there, so these new projects are not taken of an old projects have been completed and there is little bit slowdown in the irrigation section also because as you know as our people said that for the payments are a little bit stuck up in the state governments, so a little bit slow down is there in, so little bit ifs and buts are there, but we would like to deliver the best and we are travelling towards it.

Vibhor Singhal: So, Sir, Rs. 3,400 Crores topline that you are talking of, it does not take into account let us say the COVID pandemic or flood but it does take into account at a large...?

S. Vaikuntanathan: No, not taken, partially whatever it happened, we have taken into account but whatever is going to come up, we have not taken into account.

Vibhor Singhal: Of course, Sir. But it does take into account that a large part of our order book right now is L1 because the entire order book is L1, the irrigation order you have Rs. 700 Crores is not under execution, so you are expecting those projects to start execution in the next few quarters and being that into account we expect Rs. 3,400 Crores of topline this year.



KNR Constructions Limited
August 13, 2021

S. Vaikuntanathan: Of course, Sir. Sure,

Vibhor Singhal: Sir great to hear that, also just I think I missed out on the numbers if you could just turn it up, a couple of book questions, what was the standalone debt at the end of the quarter and what is the equity requirement for this year and next year in the HAM projects?

K. Venkatram Rao: Standalone debt for this quarter is it is net cash only, it is around Rs. 47 Crores we have the cash balance are there and as far as equity requirement is concerned for this year, we may require actually Rs. 135 Crores for these 5 HAM projects and next year is around Rs. 65 Crores actually, that is 5 HAM projects accept this Kerala new HAM projects where the equity state government is Rs. 430 Crores, so if this project will start somewhere in Q4 then we have to put around Rs. 200 Crores equity for this Kerala report in Q4.

Vibhor Singhal: Right, the latest HAM projects another Rs. 100 Crores of equity, right?

K. Venkatram Rao: I think this may not require including this year. That will come in the next year only.

Vibhor Singhal: In the next set only. Just one last question if I could squeeze in, now we have a HAM portfolio of 8 HAM projects, what is our strategy going forward? Will we continue to bid for more HAM projects because if I remember correctly last quarter, we spoke about that the deal with Cube also is right now while it on track but they as you had mentioned that they are also trying to negotiate based on the current interest rates and all and if it becomes too much of a value loss or provisions for us we would let go off that deal. So in that sense at this point of time with 8 HAM projects, how many more HAM projects, either in terms of number or in terms of rupees Crores, capital what is the number that we are comfortable with in terms of holding a HAM portfolio?

K. Venkatram Rao: As far as this HAM project is there definitely the deal with Cube actually, our due diligence has already started and we expect that because one project now we got the PCODs and we have already applied approval for the stake sale with the lenders as well as NHAI, so definitely the deal is on track actually as of now, so definitely our studies will be asset-light only, so definitely we will try to take further at least two to three HAM projects in this year, already we have got one, so we may take further at least two to three HAM projects in this year and our strategy is the same only we will do the execution and once this completion is completed, we will definitely offload to the top 50 investors, so we will work on that strategy only.

Vibhor Singhal: Sure Sir. Thank you so much. Thanks for taking my questions and wish you all the best.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: Good afternoon Sir and hearty congratulations for very excellent set of numbers in a very challenging quarter. Last time if I remember clearly you had highlighted commodity challenges that may be the indexation or NHAI or the other stake may not be able to compensate but here



*KNR Constructions Limited
August 13, 2021*

what I see in your result is that the margins still remain above 19%, so if you can highlight that what measures may be KNR had taken that we do not see any commodity impact at all I mean in the result, so what has the company done to mitigate this impact and can we expect this margins to may be sustain into probably the rest of FY2022?

K. Venkatram Rao: Sir, definitely as far as a commodity is concerned there will be an increase in the commodity prices for steel and cement but still company is able to maintain that. The reason being that actually if you know whatever HAM projects are there they are fixed price EPC contract and on the definitely some escalation part was already built-up while bidding the EPC cost and other than this in this HAM project as you know last time we told that due to bankers requirement we have put the additional equity and what are the inflation parts what we are getting from the NHAI that is completely passed on to the EPC contractors. So, definitely when we have seen that we are getting almost at least 4% or 4.5% escalation in our grant and that is completely passed on to the EPC contractor. So, if otherwise is what is the additional equity was paid more than that if will be got in the form of inflation. That is why that has not been very much affected in the HAM projects but definitely other EPC projects there was an increase in the input price and which has been compensated through around 50% to 60% to the extent of what has built up in the contract agreement. So, basically, these are the two reasons that is why that margin has not been reduced but we expect that the margin may continue between 17% and 18% trend definitely in the future.

S Vaikuntanathan: We are also on the lookout for and this is the only third quarter end we will be in a position to assess that how the prices are going. So, that call we will be taking at that time.

Priyankar Biswas: Sir if let us say, if complete pass-through would have been possible, let us say if the steel and cement even for the EPC, could we have possibly reached the margin level of maybe 20% - 21%, I mean if such high level of inflation was not there would that be a right assessment?

K. Venkatram Rao: Definitely, at that time we may take around 20% - 20.5% we may touch, but as of now also we are availing around 19.4%. So, definitely, around 0.5% benefit will be there in that case.

Priyankar Biswas: Sir another question from my side. I think during a question on management bandwidth, so which another Sir mentioned something on digital construction probably some bit in digitalization. So, can you please shed some light what are the plans here and what are the maybe longer-term expected benefits that is going to accrue, so as far as the addition of new technology what is the growth?

K. Venkatram Rao: Actually, the digital construction we are likely to consider to improve our monitoring system as well construction methodologies to be properly digitalized and they are available for information availability made to the employees and the methodologies what we do during the construction and everything is properly digitalized and have a record on it as well the performance of employees are being properly monitored and the digitalized concepts are now being developed and many companies want to adopt. So, we are also in the study stage, we have not completely



*KNR Constructions Limited
August 13, 2021*

gone into it rather we were considering in upcoming one year or two years' time we would likely completely go in digitalized to adopt properly to add some strength to the company, I would say.

Priyankar Biswas: As you said it is related to the so what is the sort of capex maybe we would be looking at not only in this year maybe three years to four years from now?

K. Venkatram Rao: Actually, it is a premature thing for me to tell you anything Sir because we are in touch with some agencies and all, who are doing all these customizations for us. So, definitely, I did not get real quotes from them once I have the full information, I would put it forward to you all.

Priyankar Biswas: Sir just one last question, so I understand that the Chittoor project has got the PCOD so if the cube deal goes on as planned then you were supposed to save like half of the amount on COD. So, how far are we from that milestone at least for this particular project, I mean we have got PCOD so when can we expect the cash flow from Cube at least in this project?

K. Venkatram Rao: Definitely because the deal is very much on track, and we expect for at least the Tirumala project we should be able to complete the entire money by March this year definitely we should get the entire money actually. We have already applied NOC with them NOC has also have come and we have applied for NOC also, so the process is taking place.

Priyankar Biswas: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital Markets. Please go ahead.

Shravan Shah: First of all, congratulations on a good set of numbers, couple of points, Sir first how many projects we have bid where the bid has not opened and in terms of value and which segment HAM, EPC?

K. Venkatram Rao: Right now, actually two projects are there where we have bid, where we are expecting the results to be opened that is two HAM projects and further, we have already short-listed around six to seven projects that we are also bidding because the date is getting postponed and the size is around Rs.1,000 Crores to Rs.1,200 Crores each project and we expect that this year at least two projects to three projects we should get in HAM.

Shravan Shah: Okay, the projects that we have bid that are also in the same range Rs.1,000 Crores – Rs.1,200 Crores size?

K. Venkatram Rao: Yes, correct.

Shravan Shah: So, maybe the possibility is that, that we got one HAM project and we are seeing Rs.2,000 Crores to Rs.3,000 Crores inflow more so possibly we can go to Rs.4,000 Crores – Rs.5,000 Crores also that is also possible. The second thing is in terms of the two clarification one is on



KNR Constructions Limited
August 13, 2021

depreciation and the tax rate, so we were talking around 25% - 26% tax rate but this quarter we have a 35.5% tax rate so for the full year in the rest three quarters we can see a lower tax rate so for full-year we can have 25% - 26% tax rate and depreciation this quarter we have Rs.27 Crores odd, so how do we once the irrigation is picking up can we see the same run rate Rs.30 Crores odd or you can go to Rs.40 Crores quarterly run rate?

K. Venkatram Rao: Sir, as far as the tax rate is concerned, now this year onwards actually we have gone to the new tax regime. If you really see effective tax rate meaning without considering the deferred tax, then it comes to around 27% but what has happened is because now the tax rates have been changed from 35% to 25% due to that their deferred tax realization has come. So, that is why deferred tax assets have come, previously there was deferred tax liabilities were there due to this reason actually you are seeing the net effect, if you see only for the current tax it is coming to 28% with deferred tax, it has gone to 35%. So, expect that actually because what are the difference of 10% that is going to hit in this year, so this year our current tax will be around 25% to 26% but with deferred tax, it may go up to same around 30% to 35%. As far as depreciation is concerned definitely this year because as you know that last year, we have added just Rs.100 Crores in our capex and before that year we have added around Rs.200 Crores. So, now because last year addition was less that is why this year depreciation will be less and we expect that we may end somewhere around Rs.120 Crores to Rs.130 Crores of depreciation in this year.

Shravan Shah: Okay, and the capex last time we talked about Rs.130 Crores odd, so this quarter how much we have done and for this year and next year the same Rs.130 Crores capex guidance remains the same?

K. Venkatram Rao: This first quarter we did around Rs.42 Crores of the capex and this year we expect that we will touch somewhere around Rs.140 Crores to Rs.150 Crores capex in this year.

Shravan Shah: Okay, and one question on the HAM front, so you already said that the first HAM where we received the PCOD. So, the deal that we have finalized on the three projects by this March or by next year can we see the equity of Rs.323 Crores will be out of our books, and we will be getting the cash?

K. Venkatram Rao: Definitely, we are expecting because one project we already got PCOD, and we already applied to NHAI as well as the lenders. So, we expect there at least by Tirupati we should be able to close by this month-end and other two projects are definitely by first quarter or maximum by second quarter we should be able to close.

Moderator: Thank you. The next question is from the line Seetharaman R from Spark Capital. Please go ahead.

Seetharaman R: Thank you. Sir, I have a bookkeeping question basically can you give the working capital numbers like net retention deposit with government, the dues from customers in the current?



*KNR Constructions Limited
August 13, 2021*

- K. Venkatram Rao:** Yes, this retention money we told, in SSP we are on Rs.184 Crores, Sir.
- Seetharaman R:** Come again Sir, sorry?
- K. Venkatram Rao:** Retention deposit actually that is in asset side it is Rs.184 Crores and against that retention payable to the contractors and other is around Rs.108 Crores that is liability side. What other question Sir you asked?
- Seetharaman R:** Basically, the advances to customers, dues from customers?
- K. Venkatram Rao:** Yes, the mobilization advance what we received from the client is around Rs.134 Crores, Sir.
- Seetharaman R:** Okay, and the due to customers?
- K. Venkatram Rao:** Sir, dues to the customer is Rs.305 Crores.
- Seetharaman R:** Okay, and due from customers?
- K. Venkatram Rao:** It is Rs.220 Crores, Sir.
- Seetharaman R:** Okay, and advances to customers?
- K. Venkatram Rao:** Mobilization advance received from the client is Rs.134 Crores, Sir already I have told.
- Seetharaman R:** Sir mobilization advance. Thank you. Just one more question, you told on the equity investment for the current year for FY2022 is going to be Rs.135 Crores, right from the five existing projects and if possible Rs.200 Crores towards the end of the Q4?
- K. Venkatram Rao:** Yes, Sir maybe at the end of the Q4 because we are expected appointed date is somewhere in Q4 so at that time we have put around Rs.200 Crores of equity.
- Seetharaman R:** Okay, and for FY2023 it will be Rs.65 Crores plus Rs.100 Crores?
- K. Venkatram Rao:** Yes, Sir.
- Seetharaman R:** Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Thank you for taking my question, Sir. So, two questions, one was at this the new hybrid annuity that we have been able to manage the Chittoor-Thatchur, if you could help us with the land status and also if you could clarify because I mean what I gather is some of these farmers there have been agitations against the compensation that is given to them because looks like almost 60% of



*KNR Constructions Limited
August 13, 2021*

the land that these are planning to acquire is agricultural land with three crops so if you could help us understand what is the land status and if there are any proof of this thing wherein people are talking about agitations by the farmers, do you agree that in compensation?

K. Venkatram Rao: Sir, actually Chittoor-Thatchur concerned, NHAI has not issued LOA first thing, it is only L1 status. The major issue what NHAI is facing is that there is no land if we would have an adequate thing. NHAI has already taken a stand unless they get adequate land in hand they do not want to issue LOA, for which they kept it under hold and where we have spoken to the new RO actually earlier it was with Chennai RO now it is transferred to AP RO. When I spoke with him, he seems quite confident that another two months he can provide the land that is required for issuing the LOA. So, LOA is expected in another coming two months then later on things may take off. Farmer agitations concern which you are asking about, really the issues are there but now NHAI has taken a stand that they immediately appoint a tribunal on which they decide the real compensation that can be done to the same. So, whatever that amount decided by the revenue authorities will be for Kala, we call it Kala actually, whatever the award passed by the Kala will be deposited to the Kala and they shall have the possession with the land and later all the things will be once with the tribunal. The tribunal is being appointed by the NHAI, in the tribunal they decide and later on they pay tribunal awards. That is how they are talking we do not know whether the farmers will be willing, or the things are little under dilemma.

Prem Khurana: Sure, Sir is it possible to share the 3D, 3G or 3H status whatever is available with you for an accepted team?

K. Venkatram Rao: Actually, Sir that the AP RO has taken a new position in this, and it is only one week or 10 days I believe. I have requested him, he said he will pass on once I get the information definitely, I will tell you, people.

Prem Khurana: No problem Sir. The second question was essentially on the strategy, so basically, what I wanted to understand let us say the way I look at, the way you have been bidding when I look at the last hybrid annuities there have been two hybrid annuity which are almost around Rs.2000 Crores odd is this of size and this actually Rs.1000 Crores, so let us say if it is a choice between Rs.2000 Crores of order size and Rs.1000 Crores you have multiple projects with Rs.1000 Crores or you have one project of Rs.2000 Crores which one would you prefer in terms of, would you be willing of go for the concentrated base rather than diversifying into a number of projects or would you prefer to have multiple projects at multiple locations so that the concentration risk is not there?

K. Venkatram Rao: Sir, obviously everybody wants quantum work to be in one likely place, but we will have to see the ticket sizes which are coming out now. Generally, after that Kerala was the last call of tenders wherein, we got about say Rs.2,000 Crores above contract, but rest were all below Rs.1,500 Crores – Rs. 1,400 Crores only. When we approached the NHAI and said with this they are saying they have difficulties in getting the approvals for the bigger ticket size projects because the Chairman level calls can be taken below Rs.1,400 Crores levels, so they just want to sort it



KNR Constructions Limited
August 13, 2021

out on their own they do not want to send it to Ministry and the prolonged process they do not want to get it done. So, that way probably they are going for a smaller ticket size but it may not be continuing so that a bigger ticket size rather you can try to get the single corridor is being called like Chennai, Bengaluru was called, so many people have got projects together, adjacent projects also they win, some sort of arrangement can be done like that otherwise you will have to have different locations and ticket size about say Rs.1,400 Crores – Rs.1,500 Crores levels only.

Prem Khurana: Sure, and Sir just to understand from the lenders perspective, so do we see treat these sizes differently and let us say if it is a Rs.1,000 Crores project are they willing to kind of fund it and they would prefer to kind of fund Rs.2,000 Crores project more?

K. Venkatram Rao: Actually, as of now they have not expressed any sort of discomfort in doing such things Sir, but definitely the ticket size is smaller they will be more comfortable otherwise you may have to join few more banks for the consortium kind of thing, right.

Prem Khurana: Thank you. That is helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit: Good evening, Sir, and congratulations on a good set of numbers in a very, very challenging environment. Sir, my first question on, do we have the opportunity in irrigation in Andhra Pradesh now or do you think it is going to be very, very muted as we go forward?

K. Venkatram Rao: Irrigation concerned in Andhra Pradesh there is very little choice and the Telangana and Andhra Pradesh both are concerned Telangana we are a little bit comfortable to work because the funds availability if not today at least we will have a hope to get paid after three-four months. But in Andhra Pradesh, the financial situation is worse, so it is a wrong choice to go and not bid there. So, we are not even thinking of bidding in such places.

Mohit: So, most of the growth which will come here on will be mostly from EPC and HAM is I right in saying that?

K. Venkatram Rao: Yes, EPC and HAM and the irrigation concerned even Maharashtra is calling the bid, even Bihar, Chhattisgarh there have been small, small projects but Karnataka is now looking huge scale irrigation projects. There are other states which are also coming up, maybe as I earlier said there is a slowdown because of these COVID issues, all revenues are down for every state now that is the problem.

Mohit: From HAM portfolio given that one of our projects is almost ready is it possible to get refinanced and secondly, I have heard one of the competitors that there is a bank rate plus kind of loan is available in the market are we flooring that or is that recent phenomena that the bankers are willing to take the bank rate plus?



KNR Constructions Limited
August 13, 2021

- K. Venkatram Rao:** Sir, our study is we are not looking for right now refinance of these assets sales. Actually, we are looking up complete because the company's strategy is so definitely we do not want to keep our equity in this project for a longer time so as we already entered the agreement with the investors, so we are obliging that agreement and we are in the process of diluting our stake in that equity, we are not looking for any refinance in these projects Sir, as of now.
- Mohit:** Is there any discussion on the balance of two HAM projects which are under advanced stages?
- K. Venkatram Rao:** In these three assets we have already entered the agreement.
- Mohit:** Two is remaining, right?
- K. Venkatram Rao:** Yes. The new one you are talking about?
- Mohit:** No, I am talking about I think we have five HAM right, out of which three we have?
- K. Venkatram Rao:** Out of five actually, three we have already entered an agreement with the investor and one is that KShip actually that investor is not keen because it is state NOD project and other one is Palani project on that discussion is going on, so we are still at discussion stage actually with them we have not formulized as of now anything else.
- Mohit:** Thank you and best of luck. Thank you.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.
- Ashish Shah:** Thank you. Can you give me the land status of the Kerala projects I know you said that it might take five, six months for the appointed date but give the 3G or 3H status it will be helpful?
- K. Venkatram Rao:** Sir, actually our VP Sir already told in the previous it is taken that because there is some land issue is there that is why this project may get delayed by two months to three months actually because recently we have signed the concession agreement with them now we are legally authorized to get a letter from NHAI, so we are in the process of getting that letter but we expect that it may be delayed by around two months to three months actually that appointed date may be delayed by two months to three months.
- S. Vaikuntanathan:** Adding to this actually today Kerala concerned there have been cases which are even coming even around all over India there are cases about 40,000 and odd. I think 50% are coming from Kerala and too that Malappuram district where my projects are located entire 15000 cases are coming from Malappuram and we were all lost to come touch your RT/PCR and then enter the state. So, even every labourer cannot come in and do that and land acquisition process no doubt it is completely slowed down there but before the pandemic, they have done the extensive job, even they have evacuated a lot of residences, they have paid and everything, but we need around 80%.



*KNR Constructions Limited
August 13, 2021*

I think 60%-65% is already achieved by them. But I have my own doubts because unless these cases come down and the labourer may not come to execute the projects also, we have that issue. That is why I was a little bit doubtful on the major turnover announcement also.

Ashish Shah: Right, so probably any turnover is unlikely this year from this project only we should look at next year only?

K. Venkatram Rao: Maybe last quarter we are expecting, we have already accounted in last quarter.

Ashish Shah: Secondly on the EPC project the Periyar EPC project in Tamil Nadu there we still not seeing any revenue being booked, so by when do we expect that to start kicking in?

K. Venkatram Rao: Pardon, Sir?

Ashish Shah: In the EPC project the Cheyyur-Vandavasi EPC project?

K. Venkatram Rao: Yes, we have started work on that just after this COVID only we have started mobilizing, so I think to get revenues out of that I think another two-three months we will take maybe in the third quarter mid we will start getting revenues from that.

Ashish Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jiten Rushi from Axis Capital. Please go ahead.

Jiten Rushi: Good evening, Sir. Congratulations on a good set of numbers. Thanks for taking my question. Sir, a few bookkeeping questions from my side, can you give us the revenue breakup between roads and irrigation for this quarter and comparable YoY?

K. Venkatram Rao: Sir, for this quarter HAM constituted around 52% and irrigation constituted around 28% and 17% other is road EPC project.

Jiten Rushi: Can you give a comparable number of last Q4 or Q1 2021 if possible?

K. Venkatram Rao: Q1 2020 is against HAM it is 48% and against irrigation, it is 23% and against another road EPC it is around 19%.

Jiten Rushi: Sir what is the debtors and inventory number?

K. Venkatram Rao: Debtors is around Rs.697 Crores out of Rs.697 Crores, HAM constitutes around Rs.398 Crores and irrigation constitutes around Rs.273 Crores.

Jiten Rushi: Okay and inventory?

K. Venkatram Rao: Inventory is Rs.164 Crores.



KNR Constructions Limited
August 13, 2021

- Jiten Rushi:** Sir, what I can see from the presentation that we have drawn down significant debt for Chittoor because we have almost about the company?
- K. Venkatram Rao:** Yes, Rs.250 Crores we have drawn.
- Jiten Rushi:** Yes, but for other projects, we are still at the same level of I would say December also I think since the last two quarters?
- K. Venkatram Rao:** Yes, we have not drawn debt in that project because the Chittoor project has come, and we have received the COD that is why we have to draw the debt and we had the EPC payments. Other project also we will try to draw debt in this quarter.
- Jiten Rushi:** Because if you see the HAM receivables are still high like almost Rs.400 Crores?
- K. Venkatram Rao:** Yes, still Rs.400 Crores are there and our strategy is that actually last time we have told that because our parent company does not have the debt, if you draw debt also in the SPV it will have the cost on as a group actually that is why we do not want to do but definitely when once we receive the COD we have to draw the debt actually so that is why we have drawn the debt in Tirumala and the same thing we will do for other two projects also.
- Jiten Rushi:** Sir my Trichy now the land is available. Trichy to Kallagam land was an issue so is it available now?
- K. Venkatram Rao:** Trichy-Kallagam actually the land was not available in about 8 kilometre stretch and there also we have applied for COD for commercial operations for 27.8 kilometres. I think these are under the process another one to one and half month, we will be getting that COD, but out of 8 kilometres recently a week ago they handed over around 4 kilometres another 4 kilometres is under still acquisition definitely by this month-end or next month the second week they would be providing around 3 kilometres land also, so last one kilometre we are doubtful whether it has to descope out of the project or we may extend some more time to NHAI to do that that will be decided after first annuity thing.
- Jiten Rushi:** Sir, when we expect Trichy and Ramsanpalle PCOD in which quarter?
- K. Venkatram Rao:** Coming two months we can expect.
- Jiten Rushi:** For both the projects?
- K. Venkatram Rao:** Both the projects we have applied, and we have complied with all the requirements that are considered to be done for the PCOD. We have submitted everything, and it is under the scrutiny of engineers.



*KNR Constructions Limited
August 13, 2021*

- Jiten Rushi:** Sir in terms of competition as you said we were lucky to bid for a larger ticket size which again now we do not see those projects, so do you see the competitive intensity in the bracket of Rs.1400 Crores – Rs.1500 Crores or you are comfortable for bidding such projects at the rate you think to impact the margins?
- K. Venkatram Rao:** If there are bigger ticket size definitely, we welcome to bid that Sir, but I think now availability is only that. Maybe NHAI they change their policy and then they come up in a bigger ticket size that is a different thing but otherwise, we are going to have small, small pieces only like Rs.1100 Crores, Rs.1200 Crores, and Rs.1400 Crores.
- Jiten Rushi:** These are a little high in this range also?
- K. Venkatram Rao:** Yes, maximum Rs.1400 Crores you can get that size which now we are able to see. You might see that ticket size as bids also nowadays.
- Jiten Rushi:** Last question on the Kerala project Sir you are saying delay by two-three months so earlier you were expecting ADQ in Q3 and now you are expecting appointed dating, my understanding is correct?
- K. Venkatram Rao:** Yes, Sir but see today also the Malappuram district has higher COVID cases reporting. Since two months the numbers are not coming down and again they are talking of the third wave and all that. So, definitely I am not quite thing but third quarter if not happened otherwise it is going to be further delayed I am also not liking because a bunch of turnover which I need to get from that project, I am also trying to push and see what can happen because today the government is asking us to do the RT/PCR and enter the state every worker cannot enter like that, right they fear to enter such states that is the bigger problem which I am now facing.
- Jiten Rushi:** Sir, one last question, in the last quarter call you said that if there is a cost escalation then the SPC bankers restricting the SPV to transfer the escalation part to the EPC players during the construction. But Sir in the starting you said that there was an escalation which was passed through to the EPC player from the SPV which resulted in maintaining a margin of 19% plus. So, is there a change in the understanding or how it is now?
- K. Venkatram Rao:** Sir, basically what has happened is initially what the escalations are given by the NHAI it is going to become part of project cost but some of the lenders whatever the inflation received from the NHAI they are not considering as a means of finance. They said that you have to put the additional equity and once it is what are the inflation is there it is passed through. So, in that case, what has happened whatever the input size has increased correspondingly what is the inflation we have got, and we have passed through the EPC contractors. That is why this margin has been able to maintain actually with that.
- Jiten Rushi:** That is it from my side. All the best and hope Kerala should improve soon for the people and for the company.



KNR Constructions Limited
August 13, 2021

- Moderator:** Thank you. The next question is from the line of Faisal Hawa from H G Hawa and Company. Please go ahead.
- Faisal Hawa:** On the Muzaffarpur, we have a BOT project where we felt that the government could go in for four-laning and that is the time they could probably buy the project back from you or are we looking at selling that project?
- K. Venkatram Rao:** Sir, definitely the selling this project is on the card but recently this state government has also given their recommendation for polling, running of this project so definitely we are also pursuing with them and once this project will convert into the four laning then definitely what are the payments through the concession agreement we will get it and we will see what we have to do.
- Faisal Hawa:** What figure is you gave that and what could be the equity gain for us from this project if such a scenario happens?
- K. Venkatram Rao:** Sir, that we have to really work out because as per the construction agreement it is so far when they are converting from two-lane to four laning whether it is an authority default or how it has to be worked out still, we have to discuss with NHAI then only we can be able to come to some conclusion.
- Faisal Hawa:** Thank you.
- Moderator:** Ladies and gentlemen, we will take the last question from the line of Shravan Shah from Dolat Capital Markets. Please go ahead.
- Shravan Shah:** Sir, just wanted value for the Odisha arbitration you said it is substantial is it possible to share the value?
- K. Venkatram Rao:** The value will be somewhere around Rs.70 Crores.
- Shravan Shah:** If we get most likely would be in the third quarter or fourth quarter we can book in the P&L?
- K. Venkatram Rao:** That is why because this a claim and we have to book on the basis of receipt only, so we have to wait until receipt because it is still in arbitration, and they are depositing money to the court from court we have to get that money, so we have to wait for that.
- Shravan Shah:** So, let us say if we get it do, we have to book any expenses against it or entire Rs.70 Crores will be kind of EBITDA margin gain and that we will be getting in third quarter or fourth quarter whenever we receive?
- K. Venkatram Rao:** Sir, definitely for this again some expenses will be there regarding some legal fees, arbitration expenses will be there and definitely tax will be there. So, some expenses definitely will be there against this but most of the part will go directly to profit.



*KNR Constructions Limited
August 13, 2021*

Shravan Shah: That is it from my side. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

S Vaikuntanathan: Thank you for joining on this call. Please reach out to our IR consultants, Strategic Growth Advisors or ask us directly if you have any further queries. Stay safe. We can now close the conference.

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