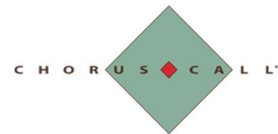




“KNR Constructions Limited
Q1 FY '25 Earnings Conference Call”
August 16, 2024

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**MANAGEMENT: MR. K. JALANDHAR REDDY – EXECUTIVE DIRECTOR –
KNR CONSTRUCTIONS LIMITED
MR. K. VENKATA RAMA RAO – GENERAL MANAGER,
FINANCE AND ACCOUNTS – KNR CONSTRUCTIONS
LIMITED**



Moderator:

Ladies and gentlemen, good day, and welcome to KNR Constructions Limited Q1 FY '25 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 date of this call. These statements are not a guarantee of future performance and involves 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 star, then zero, on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. K. Venkata Ram Rao, General Manager, Finance and Accounts, KNR Constructions Limited. Thank you, and over to you, sir.

K. Venkata Ram Rao:

Good morning, everybody. Thank you for joining us today on the call to discuss our financial results for Q1 of FY '25. Along with me, I have Mr. K. Jalandhar Reddy, Executive Director; and Strategic Growth Advisors, our Investor Relations Advisors.

We have uploaded results and the investor presentation on the Stock Exchanges as well as on our company website. I hope everyone got an opportunity to go through it. We would like to touch upon a few key company updates and the industry events, post which we will have a question-and-answer session.

I would now like to share our perspective on the significant industry development. With the release of the interim budget, a substantial sum of INR11.11 lakh crores was earmarked for the infrastructure sector. This allocation underscores a pivotal role in the India growth story, signalling that the infrastructure sector shall remain a focal point of investment and development.

Additionally, the MoRTH had secured approval for a INR22 lakh crores investment in a comprehensive highway development plan, aiming to cover 30,600 kilometers by 2031-32. Furthermore, the cabinet approved eight national high-speed road corridor projects with an investment surpassing INR50,000 crores.

Another promising development for the sector is that the MoRTH plan to award road contract worth INR3 lakh crores over the next 3 months, which aims to close the current financial year with a INR5 lakh crores in the award contracts despite a slow start earlier in this year.

The government has also expanded the completion deadline for Bharatmala Phase-1 by 6 years from its original completion schedule. Now as per the revised schedules of Phase-1 will be completed by 2027--28, the extension is on account of delay in the project awarding as the approval for the revised project cost was pending for cabinet's nod.

Upon the completion of the Bharatmala Pariyojana Phase-1 by 2028-29, MoRTH anticipate gathering INR1.25 lakh crores from user fees and monetization of the national highways, triple the amount collected in 2022-23.

The Union Budget has also allocated INR15,000 crores for the development of Andhra Pradesh capital city.

The government of Telangana also proposing to invest INR1.5 lakh crores in the next 5 years for rejuvenation of Musi riverfront.

This highlights the government dedication to expanding and modernizing the highway network, underscoring its commitment to create a solid transportation infrastructure that aligns with India's development and objectives.

Now coming to the key updates of the company. The percentage of physical progress as of June 30, 2024, for the HAM project is as follows: Magadi to Somwarpet approximately 84%, Oddanchatram to Madathukulam 100%, and we have applied for the final COD of the project; Ramanattukara to Valanchery approximately 77%, Valanchery to Kappirikkad approximately 82% and Chittoor to Thatchur 63%.

As of June 30 2024, the company has already invested INR518 crores out of INR992 crores, revised equity requirement for the eight HAM projects. Out of balance, equity requirement of INR474 crores for these eight HAM projects, INR335 crores, INR72 crores and INR67 crores will be infused in 9 months of FY '25, '26 and '27, respectively. You can refer to the Slide number 24 of the investor presentation for the details. On toll collection, from the Bihar project, has a collection of INR10 crores in Q1 FY '25 as compared to INR11.6 crores in Q1 FY '24.

Now coming to the order book position. As of June 30, 2024, the company has a total order book position of INR4,922 crores. This can be bifurcated as 58% of the EPC road projects and HAM projects, whereas 20% of the total order book is for irrigation project and balance 22% is from the pipeline projects.

Client-wise bifurcation is 63% of the order book is from the third-party clients and balance 37% from the captive HAM project. The third-party order book percentage is split between state government contract at 51%, whereas 10% is from central government and balance 2% from the other private players.

And we note that this order book does not include contract aggregating to INR1,200 crores as we are yet to receive our appointed date for two HAM projects. If we include these, our order book will increase to INR6,122 crores. The current order book will be executed over a period of 1.5 years.

Now with this election behind us and the strong focus on roads and highway development as indicated through budgetary allocation towards the sector, we expect new order awarding to be picked up, and we are targeting an order inflow of around INR6,000 crores to INR8,000 crores by the end of FY '25. Lastly, CRISIL Ratings has reaffirmed its outlook on the long-term banking facilities at CRISIL AA/Stable. And also, a short-term rating is reaffirmed at CRISIL A1+.

Now let me get through the financial performance for the quarter. Before discussing the financial numbers, I would like to highlight that during the quarter, the company has received an arbitration claim of INR60.8 crores, which is recognized as revenue from operations. And

against that, we recorded a cost of INR4.4 crores, which is part of other expenses. And the tax on the total arbitration claim is INR14.2 crores, which is included in current tax. This arbitration claim is from one of our JV that is Patel KNR joint venture.

Additionally, during the quarter, one of the associate company that is Patel KNR Infrastructures Limited. has paid dividend of INR14.5 crores, which forms part of our other income, and the tax on same of INR3.7 crores included in the current tax.

The revenue for the quarter stood at INR880 crores. EBITDA for Q1 FY '25 grew by 11% year-on-year growth to INR192 crores as compared to INR173 crores in Q1 FY '24. EBITDA margin in Q1 FY '25 is at 21.8%. Net profit for the quarter was INR134 crores as against INR110 crores in Q1 FY '24, representing a growth of 20% year-on-year.

Now coming to the consolidated financial performance. The company recorded a flattish revenue of INR985 crores in Q1 of FY '25. EBITDA came in at INR279 crores in Q1 FY '25 to INR216 crores in Q1 FY '24. EBITDA margin in the current quarter stood at 28.3%. Profit after tax stood at INR166 crores in Q1 FY '25 against INR133 crores in Q1 FY '24, a growth of 25%.

Now we move on the stand-alone balance sheet. The company continued to maintain a strong balance sheet. The working capital days stood at 78 days as on 30 June 2024. The consolidated debt as of June 30, 2024 is INR1,532 crores as compared to the INR1,220 crores as of March 31, 2024. The net debt to equity on consolidated basis as of June 30, 2024 has stood at 0.41x as compared to 0.36x as of March 31, 2024.

With this, we open 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 Shravan Shah from Dolat Capital.

Shravan Shah: Sir, the bigger question for us is the order inflow and the revenue. So wanted to understand a bit deeper in that. So starting on the order inflow front, so two, three aspects to understand. First, how much orders? And also in which segments, we have already bid where outcome is yet to come?

And second, when we are saying that we are looking at INR6,000 crores to INR7,000 crores kind of order inflow now, so when can it can come and also how much we are looking at from HAM? So that is one. And then post that, I have a question on the revenue front.

K. Venkata Ram Rao: Jalandhar, sir?

K Jalandhar Reddy: So actually, as you have asked, the real concern is about order book as of now. So we are keen on addressing that actually. We have been extensively working for the orders So, we are closely working on that, sir. And now a days, as we all know that tenders from NHAI has been completely reduced. Maybe as per Gadkari's statement and all, there should be a good value which is coming up probably from third week of this month or from next month onwards. So that's one of the aspects which should be there.

However, we expect a little bit of aggression in the sector which will occupy the space. However, there are projects from Kerala, there are projects from northeastern part of India where we have already booked, those areas are also coming up. So mostly HAM projects are a little bit -- hopefully, we will get some -- our HAM projects which we are targeting about.

Apart from that, further, we are also very keen in working on some Maharashtra MSRDC projects we're also working. That means I'm not straight away qualified into it because we couldn't finish our express highway projects timely. I mean to say The time the tender is quoted. That time, our projects are not ready. So we could not qualify on that. So we are starting some sort of back-to-back arrangement with Patel Infra. So now, it should get closed. So about 2,000 plus around would be interested in participating that.

So apart from that, we are also thinking as we have already seen that we have placed our bids in metros, with NCC's JV. Apart from that, we are also planning to go with the irrigation projects as we would likely qualify in many of the projects in in the state of Madhya Pradesh, Chhattisgarh and even Jal Shakti Mission projects also, we are trying to participate this time. So we are very keen in this thing.

Apart from that, Telangana government is also coming up with some irrigation projects. So hopefully, we will try to get one project at least from that place. And Andhra Pradesh, you might have known now, new era is open in Andhra Pradesh better than earlier. So I think it is very premature to say anything.

But however, we have spoken to various ministers and all, they are very keen in coming up with tenders in highways and irrigation as well with the central government help or they are taking some bank's help to get into those project completion. So that is also another area which is quite open for us.

Further, we are also examining on mining contracts. So I think the JV has also started out for that. If healthy margins are there, definitely we would participate in those areas Apart from that, we are also thinking of mass earthwork contracts like -- there are some back-to-back arrangements, from irrigation sector or from railway sectors, there's is a mass earthwork contract are also coming out, which we are keen on working on that, and we are also working in accordingly.

So these are the new areas -- even in railways , we would like to put bids, but I think last bid from went very aggressive, we will try to see to still participate and try to get the jobs from that. So this is the effort which we are doing, sir. And I think the efforts are enormous. And we were definitely targeting INR6,000 crores to INR7,000 crores by this year and hopefully, we will get it. That's the gut feeling we have.

Shravan Shah:

Okay. Sir, just a bit further on trying to understand, so this INR2,000 crores subcontracting for MSRDC with Patel Infra, so that's the one that we are looking at, which as you said would be mostly kind of in the final stage. So apart from that, any further subcontracting in MSRDC are we looking at?

K. Jalandhar Reddy: No, sir. Actually, primarily, I'm looking at one. Let me closely work on it and see if at all things are working better, then some adjacent projects, participation also we can go because we are the people most wanted by the bigger contractors. I'm doing a back-to-back arrangement. Many people are there to ask me. But I think we are just taking one project right now. If I think that everything is safe and going good, then I can further also take some more projects with us.

Shravan Shah: Okay. And apart from that, sir, totally, how much we would have bid in road, irrigation and the EPC, so HAM and EPC particularly how much -- where we have already bid and final award is yet to come?

K. Jalandhar Reddy: Only 1 or 2 projects, sir. Not much. So anything -- new bids only we are hoping.

Shravan Shah: Okay. And that broader range if you can help us in terms of how much more are we planning to bid? If you can also specify in terms of the overall irrigation, metro, even you talk about the mining also -- railway, mining, because that will help us that this is the kind of opportunity that we are looking at in terms of bidding individual, segment-wise. So just trying to understand if the size is so bigger, then the chances of we are getting INR6,000 crores to INR7,000 crores inflow.

K. Jalandhar Reddy: Winning chances could increase, yes.

Actually, sir, that BOT tolls, we have told you that we are very keen in participating in BOT tolls with players like Cube or some other -- there are few other agencies are there. But if you wanted me to do EPC contract for them and it's exclusively with them. Apart from that, the size of projects are almost INR3,000 crores to INR4,000 crores as you have already seen in that bidding sector. Apart from that, we were also keen in participating in certain projects in which we would like to also compete with the JV with some of the investor groups that are under discussion as of now, so I can't tell you that.

Our participation will be to the tune of 26% to 27%, and balance will be with the developers only. So such arrangement we are doing. So that if I get even one project out of that, I think around INR3,000 crores, INR2,500 crores worth of EPC will be there with me. And apart from that, MSRDC is around INR2,000 crores, which we are thinking.

Apart from that, Telangana irrigation, which is coming out with INR1,200 crore, INR2,200 crore, all that size, they are coming out. So there is a quite good chance that if we get anything, they're saying about INR1,000 crores to INR2,000 crores, we can win one contract out of that.

So even I heard the AP government is also grouping the contracts for the bigger size only. The clear details are not known, but they are also planning above INR800 crores to INR5,000 crores kind of arrangements there.

Apart from that railways and all, we are only participating in those tenders where there's a little bit higher -- more than INR700 crores to INR800 crores groups only we are trying to participate because below that, it's highly crowded and there is no good bid that is happening there. So these are the areas. MP also, there is a contract which is coming out thereof INR800 crores, INR1,200

crores also there, INR2,200 crores also there. INR4,000 crores is also there, but I will be requiring a partner to participate into that.

So all that is there in that. But there are very small contracts also there in the same group, irrigation sector within MP. So these are all there, sir. And UP also, there are contracts which are coming out. And then most probably, UP, Bihar and all other places, it's a Jal Shakti thing, which are more active. So we can even get those contracts who are above -- INR800 crores only, we will be participating. That's what we are thinking.

Shravan Shah:

Got it, sir. And lastly, sir, on the revenue front, so given this quarter obviously is on the lower side, so now for full year of FY '25, how much we can look at in terms of the revenue? And given if we get this INR6,000 crores to INR7,000 crores inflow in this year, so how much more or how much growth we can look at in terms of revenue in FY '26 next year, either growth or maybe absolute number would be fine?

K. Jalandhar Reddy:

Yes, actually, to answer this question is a little tough. Certain assumptions and things would be taken into account. See, I would say, as of now, we could not start the work in that Mysore-Kushalnagara area, where around INR1,200 crores worth of contracts are pending for the appointed date. I think the department, the NHAI is saying that within 1 month will be resolved. So hopefully, they are really working on it.

I think the EC meeting could happen on, I think, the 20th or 22nd date for that to happen. So once that is coming in, then there will be a little scope for us to work in third quarter, not in the second quarter. Second quarter is highly disappointing for us because the complete projects are in rainy season, and this time, rains have rocked the states. In like Kerala, you heard about what sort of floods we are looking there. And even Mangaluru, we are facing the same situation.

So most of the order book, which is around these areas and so, a little bit disappointing results we are expecting from the second quarter. But third and fourth quarter, we'll try to do as good as these. And so assumptions, as I rightly said that assumptions like I would get some more orders to execute in Q3 at least, and Q4.

So if I'm able to execute all these, then definitely, we will try to touch the last year results. I'm not very sure about growth on the revenue side this time. But however, we try our best in getting those things in order.

Shravan Shah:

And for next, sir, FY '26...

Moderator:

Sorry to interrupt, Mr. Shravan, we request you to get back to the question...

K. Jalandhar Reddy:

Yes. Let me answer this question. Yes, I got that. Yes, actually, frankly speaking, on the FY '25, '26, the main thing we are, right now, targeting about INR6,000 crores to INR7,000 crores worth of contracts. If we receive in this year, definitely, we are quite good for that year what you are talking about. So I think we'll do better than what we have performed at least this year.

Moderator:

The next question is from the line of Alok Deora from Motilal Oswal.

Alok Deora: Yes. Just one question, sir. Sir, you gave a pretty elaborate answer on the order inflow and what could be the opportunities ahead. But considering that you might receive some orders by end of this year and -- or early part of next year, so FY '26, what kind of growth we could look at here?

K. Jalandhar Reddy: Sir, actually, if we bag back around INR6,000 crores worth of contracts -- see, I rightly said that assumptions what we are taking into account is a major play what it happens. See, if I move to get and I could work from third quarter onwards at least, or our fourth quarter onwards. So FY '25 would be very, very grateful.

So these assumptions should become true that's the major concern of this. But however, we are confident and we will definitely work towards that to get the other inflow to our company from various sectors that I've spoken about.

And main thing is that the initial aggressions could be there from NHAI side, so little bit ifs and buts are there. But there would still, initial stages, even if there is an aggression, we are addressing through the BOT toll projects. As already said, that we will be participating into BOT tolls. So even the tenders happen in, say, next month, September, then I think those works can ground in the first quarter of 2025 concern. So let's hope for the best in this. And definitely, we are also hopeful and we are also confident about it.

Alok Deora: Sure. No, because when we look at the order book, it is of INR6,000 crores, including the INR1,200 crores of projects which have not received appointed date. So we're using roughly 1.5x order book to revenue. So it's quite critically low. So do you think we could see like...

K. Jalandhar Reddy: It's critically low, but the thing is that expected orders are also not under execution. That is the major thing.

Alok Deora: Right. So do you think we could see a couple of years of kind of really muted growth? Because even if you were to bag a BOT project or a HAM project by end of this year, nothing would really start before 8-10 months after bagging the project in terms of revenue contribution. So we could be looking at just around, at best, 5% to 10% growth in FY '26 and even FY '27.

K. Jalandhar Reddy: Sure. Definitely. we will work towards that, and we want to do that. I think that's very important.

Alok Deora: Sure, sir. I think that's all from my side. I was just looking at the revenue growth potential.

Moderator: The next question is from the line of Vaibhav Shah from JM Financial Limited.

Vaibhav Shah: Sir, in the Marripudi HAM, we have received the AD in February '24 and there is no execution in Q1. So any particular...

K. Jalandhar Reddy: Actually -- yes, but once we started -- actually, it's a complete greenfield highway. So extensively, efforts are going on in that area. Even to start the structures, we would need that highway at least some earthwork to be done.

And you know that it's a rainy reason in the Vijayawada area, Mungaoli area, the area, it is completely rain season this side. So now I think Q2, we have recently, we have submitted 5%

bill. And 10%, we will complete and submit it in September. So we have reached around 9.5% by now.

Vaibhav Shah: So is the full year, what are the targets, around 30%, 35%?

K. Jalandhar Reddy: Yes, yes.

Vaibhav Shah: And also in case of Periya Shanthi, project execution was very low in first quarter. So...

K. Jalandhar Reddy: Periya Shanthi, it is actually -- the problem was that some time in April also, there were rains and completely May month is fully in the rains. And it's a CC pavement road and lot of earthwork development is also associated with that. So that's why the progress is very less over there. And I think last Friday, we had review meeting with our Nitin Gadkari, sir. We really asked about it. So we have explained all the problems with rain, we wanted an extension up to June next year.

So June next year, we are very sure that we'll be competing because I think rainy season must get over by the mid of September 1st week onwards, so we should be getting the dry spell over there. So definitely, we'll work towards that, and we have targets to complete the project balanced by this June, at least.

Vaibhav Shah: Okay. And sir, depreciation for the quarter was very low. It fell down drastically. So what was the reason for that? And what could be the number going ahead on a quarterly or annual basis?

K. Venkata Ram Rao: Depreciation being below, the reason is that because last year, we did addition of only just INR18 crores. And this quarter the addition of INR10 crores only we did. With the last, one and half year almost, there is not much addition to depreciation. So that said, depreciation figure was low. And before that year, we used to do somewhere around INR150 crores of that addition.

For our depreciation accounting policy, for the road assets, we are depreciating in the 7 years. Irrigation assets, we are depreciating in the 3 years. So there is not much acquisition we did in the irrigation projects. Due to that reason, depreciating was low. And we expect that if it is to continue, definitely, we are getting new projects, then we will add it. If it is like that situation, we may add some between INR100 crores to INR110 crores of the depreciation for the end of the year.

Vaibhav Shah: Okay. And sir, what kind of revenue are you targeting from irrigation segment for the year?

K. Venkata Ram Rao: For the year, maybe around INR200 crores to INR250 crores will be for entire year.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: I had one question on your strategy where you have mentioned that you want to increasingly pick up more projects which require higher engineering skill. So if just qualitatively, if you can give us an idea of the current order book, what percentage, in your assessment, would constitute projects? What other the projects will be having this complexity or high engineering skill?

K. Jalandhar Reddy: Actually, the high-end engineering projects are, we have that Kerala with us, and there is a huge big structure that we are constructing, about 31 meters -- 32 meters-height flyover over there.

And apart from that we have Avinashi flyover, which is going on, I think by December, we are delivering that also.

And there are a couple of projects, new projects are also coming from that same region, which we are keen in participating those tenders right now. And apart from that, the high-end engineering projects are coming up in the city sector like in Hyderabad also, there is enough flyover projects coming up. So we will be keen in participating in those.

So generally complex engineering projects are more with NHAI as well as state governments. And as I have spoken that MSRDC that express highway that we are constructing it, what we are now under the discussion that is also having high-end engineering structure as well as complex engineering.

Lokesh Manik: About 40%, 50% of your order book would that be a correct assessment?

K. Jalandhar Reddy: The pump house is going to be a complete high-end engineering only. So I think mostly it is 60%, 70% contributing towards that.

Lokesh Manik: Okay. And the second question was on your strategy for BOT projects. So you would want to be an investor or you would just restrict yourself to EPC kind of work on these projects?

K. Jalandhar Reddy: The target is to go as the EPC contractor only, but however if at all I have to take part for my compulsion, I am open to do it.

Lokesh Manik: Great. That's it from my side. Thank you so much.

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

Jiten Rushi: So my first question would be on the subcontracting work which you are targeting to take in the MSRDC projects and again you said that there could be some BOT tolls projects either you will be in joint venture or you can take us back to back subcontracting. So in such situation what kind of EBITDA margin you are targeting?

K. Jalandhar Reddy: So actually BOT tolls mean the EBITDA could be as normal as it was early. So targeting levels are maybe good only, but we'll have to see at the end of the day what we're going to deliver. That's important because any BOT contract that doesn't come up with an escalation factor.

So what happens once there is no escalation factor we put around every year overall 5% growth on every year we take it. So on average around 5% to 6% we will take towards the entire contract size if you take it, that's going to be around 5% to 6% we would try to be putting it. So if that assumption goes good with that, definitely things are in line with it or otherwise some abnormal changes which are coming up in the input prices and all like diesel, bitumen steel, cement and all other aggregates sand and everything, then we will have a little bit of setbacks. Otherwise, everything goes normal definitely things are in normal manners..

And so the purpose of taking BOT Tolls there is a lot of risk involve in it because the timelines are very important for them. So definitely they also offer a good price to the contractors so that there should not be any ifs and buts in future for that. So aiming for the good margins only. So

we are entering to that sector to get the good margins, if I need an ordinary project rather I would win a HAM and I do it on my own. Definitely that much margin little bit reduced to a margins, I'm quite sure as earning it.

Jiten Rushi: So is it safe to assume that if you go for any subcontracting or BOT or MSRDC you can make 15%, 16% EBITDA margin. And that irrigation project which you're targeting in Telangana or some of the segment, if you say that there will be higher margin?

K. Jalandhar Reddy: Yes. Hopefully, the target is that only, definitely.

Jiten Rushi: So what could be the EBITDA margin guidance for FY '25, '26 broadly I'm asking? I understand difficult to say, but if you can highlight broadly?

K. Jalandhar Reddy: If the all input prices are normal, definitely, we are going to deliver around 16% to 15% kind of level.

Jiten Rushi: 15%, 16%. And this is also including the high-margin irrigation projects?

K. Jalandhar Reddy: Everything put together only. Otherwise, I don't have that much confidence to say that. Generally I normally rate like 13%, 14% only it's still okay this time there is a little bit confidence that is there on irrigation project also to come up and BOT toll also to do some EPC for them. So all that in a bit of that will -- that I have.

Jiten Rushi: And sir the appointment dates for the two projects are being delayed. So now what is the reason why it is getting delayed? And what is the target timeline we are looking at to get these upon dates for this Mysore project?

K. Jalandhar Reddy: Actually, Mysore project is pending for the EC that environmental clearance. So I think the tribunal meeting is going to happen or the board meeting for the EC is going to happen in 20th or the 22nd, I'm not very sure about it the date and all, but approximately around that there is a meeting for them. And once that is through with that, I think circulation of minutes would take another 15 days then after that I think we can sort the issues with NHA I for getting the appointed date.

As of now, the land is also -- in one project it is already achieved about say 82%. And second project around 70% it is there. I think they are quite confident that by this month end they are able to achieve that also. That's what PD said with me when I have spoken.

Jiten Rushi: So this should get appointed at October, hopefully?

K. Jalandhar Reddy: Yes sir. Maybe mid of September or October kind of that.

Jiten Rushi: And sir one more question on the claims so...

Moderator: Sorry Mr. Jiten we request you to get back to the question queue for any follow up question. The next question is from the line of Vasudev from Nuvama. Please go ahead.

- Vasudev:** Yes, sir, I just have some data-related query. Firstly, what is our outstanding receivables on the Telangana and the capex that we are guiding for FY '25 and what you've done for the first quarter?
- K. Venkata Ram Rao:** As of date actually Telangana has certified receivables of INR600 crores, but with unbilled it will be around INR900 crores as of date. Receivables are pending from the Telangana. As far as fees are still there, this quarter we added around INR10 crores, addition has been made in the gross block.
- Vasudev:** Sir I was asking the capex that we are trying for FY '25 and what we've done in the first quarter?
- K. Venkata Ram Rao:** First quarter, we did capex of INR10 crores. And this year, because as our ED sir is telling that we are trying to get new projects definitely based on them and which quarter we are getting to the project. Based on that capex requirement may change, but if we go in a normalize way, there will be somewhere around INR80 crores-INR100 crores addition will be there in this year.
- Vasudev:** Okay sir. And sir, just if you can repeat the standalone cash levels?
- K. Venkata Ram Rao:** Standalone cash is INR33 crores.
- Vasudev:** INR 33 crores. Okay that's it from my side.
- Moderator:** Next, there's a follow-up question from Faisal Zubair Hawa from H.G. Hawa & Company. Please go ahead.
- Faisal Hawa:** Sir what is the kind of free cash flow and cash flow from operations that we hope to generate in FY25 assuming that we don't win too many more orders. That is one. Second is sir on the consolidated level, we are still having an interest burden of around INR37 crores per quarter. So is there any way that we can utilize the cash that we are continuously getting from the divestment of HAM projects, etc to reduce this interest burden on consol level also?
- K. Venkata Ram Rao:** But in console level definitely we are trying to get the monetization of project. So if we monetize the project then whatever the debt is there, it is taken there by the investor. So that is one thing that we are trying to do it. And this year, actually, because one project that is KNR Palani we already got the PCOD. So we expect that monetization will definitely happen in this year. And the other three assets, monetization is in discussion and we expect that this Kerala 2 and Chittoor -- Thatchu we should get POCD by end of December and from there 6 months.
- So maybe by next year, September '25, you should be able to monetize that 3 assets also. So as our policy is there to be asset light we will continue to do the monetization of assets. And based on that definitely what are the big levers in the consolidated will be...
- Faisal Hawa:** And about some of the free cash flow and cash flow from operations that you hope to generate in this year assuming that Telangana payments come through?
- K. Venkata Ram Rao:** If the Telangana payment comes through, there will be very much positive might be more than INR300 crores cash from operations will be there.

Faisal Hawa: Okay. And has the Telangana government makes any kind of arrangements or banking arrangements to really get the payments through? And have you made any progress with the court case we had filed against them?

K Jalandhar Reddy: As far as the court case is concerned, there is no big developments because we have just placed it is very early to say anything about it. But I think the dates will come but we have discussion with the Telangana government. And they keen on paying payments by September end what they said. So let us pick on there. Otherwise, the court case also get admit to gets the dates from September onward. It will be taking a little time. It is not that -- I cannot guarantee that things will be parted with the court case. But the thing is at least they'll have a threat. And second thing, it's already delayed for 1.5 year. The main intention in placing the court cases that they haven't paid us from past 1.5 year,. so there is an accumulated interest also in losses for us. So that we want to gain, that's where we have placed the situation there.

And court case is done for that purpose. So I'm telling the department that you pay the regular payments, whatever you can pay. And after court verdicts only, you can pay the interest. Because they themselves voluntary they don't pay the interest part. So I think we will hopefully see that September end what happens.

Faisal Hawa: We can at least get half of the money?

K Jalandhar Reddy: Yes, sir. --Not half, I think if they pay, they will pay the full due but they don't pay the interest.

Faisal Hawa: Sir, would it be right to state that in BOT at least there's only 4 or 5 players who are going to now compete because of balance sheet strength? And what is your opinion of so many people who have taken up time order ...

K Jalandhar Reddy: No. It's not like that. One cannot guarantee about it like that. But I can say that there should be some sort of sensible bidding, that's it.

Faisal Hawa: Okay. Because there is no escalation also.

K Jalandhar Reddy: Yes. I think BOT toll means they may not place it like EPC, they are placing like because earlier, many people have burned their hands in the toll projects. So definitely, this time, I don't think people will be brave enough to put the bids as they want to make. They will do R&D that's what our gut feeling is.

Faisal Hawa: And any progress with solar projects or how we have given up on that?

Management: Solar projects, actually there is progress. It's not that right now there is no good mix that are available in space. I think there is to come, new NTPC tenders are there likely to come out and Maharashtra also came in because green energy is now required all over because of increasing requirement of the power through EVs and other industrialization. So definitely, the power is required. And one can't say we can go for big solar. So I think there should be good rally upcoming from third or fourth quarter onwards.

Moderator: The next question is from the line of Amitosh Kumar from Master Trust. Please go ahead.

Amitosh Kumar: So my question is in 2 parts. The first key part is which type of projects give you the highest margins? And do we see the same margins in the future, and this is the first part. And second part is, what is the size of these projects in your order book?

K Jalandhar Reddy: Actually, so that is quite difficult to answer right now because as of now, the order book position, we may be knowing it. But actually, we have started a new sectors, then BOT Tolls, we want to go. We want to go in the irrigation sector in an extensive way. We want to further go in railway, we want to further go in metro, flyover also.

So that put together, I think it could be possible around 15% EBITDA levels are quite possible. That's what we are thinking. Input rates are under control because everything is subjected to some kind of assumptions only entire bid is an assumptions which are there right away. So that really that we should be getting through that.

Moderator: Thank you. Next question is from the line of Prem Khurana from Anand Rathi.

Prem Khurana: Sir, my question was with respect to the metro rail. I think last time you spoke, I mean, you were giving us a sense that for some of these projects in Bhubaneswar, in JV with NCC, I think the results are already out. Possible to talk about how the competition was, I mean, let's say, compared to roads was it as competitive?

K Jalandhar Reddy: That is also a right question. The thing is that we were not L1. I think we were standing at L6 at some positions in that. So definitely we need to improve ourselves to make things work for us. So we are sorting some good consultants who can guide us in such biddings and these areas. So we also need to improve what I mean to say, and we are now trying to improve ourselves.

Prem Khurana: Sure. And even on BOT side, and you say, I mean, you are open enough consider back-to-back subcontracting or go at a minority partner. I think I mean there are some of these other companies started talking about the similar sort of arrangements. So when you say we're engaging some of these people. So there again, I mean, how easy or difficult would it be able to have it in your favor?

Because again, we have the similar situation where in some of these other companies could settle a little lower in terms of margins. So what base margin would you want to have? I mean, below which you won't go and bid for these projects?

K Jalandhar Reddy: So actually, the back-to-back arrangement contracts definitely, it's kind of only the lead we are paying and going into it. So it may not be a big difference that may come out. But however, wherever there is a back-to-back arrangement, little bit of lesser EBITDA we are assuming. Earlier, we used to deliver, I think above 18% plus. That's why maybe we are discussing at 15% levels right now.

Prem Khurana: Sure. And just one last, if I may be with your permission. So we saw our net working capital cycle come down this quarter versus last quarter. But despite that, our cash balance has come down from INR230-odd crores last quarter to INR30-odd crores.

Possible to help us reconcile that, I mean how did we use this INR200-odd crores because our debtor days are down, our inventory cycle is down. So overall, I mean, NWC that you are reporting, in PPT is down. I mean, is it better than the unbilled revenues have gone up substantially, which is where the money would be parked for now?

K. Venkata Ram Reddy: Actually, this quarter, what we did, we did actually we have taken the disbursement from our HAM projects. Actually, this time, outstanding from our HAM project is just INR450 crores. Previously, it was somewhere around INR700 crores. Around INR300 crores disbursement we have taken from the HAM company. So that's why with this cash and opening cash we have utilised to pay off our creditors and to reduce our inventory.

Due to this reason, we could be able to maintain that our net working capital. And definitely because we did actually a lot of work which has not been certified in some of the projects. So that's why that inventory has built up basically due to irrigation and some of the road assets. But our debtor certificate will definitely be taken the next quarter. And we will try to maintain that network capital to existing level onward.

Prem Khurana: Is it possible to share? I mean, how was the movement in terms of unbilled revenue over the last quarter? What's the number at the end of this quarter or the number last quarter, the unbilled revenue?

K Venkata Ram Rao: This quarter will be around INR743 crores. And compared to last quarter, it will be around INR500 crores.

Prem Khurana: Okay. And mobilization advances if possible please? What's the number now and what were the numbers?

K Venkata Ram Rao: Around INR57 crores is mobilization advances against INR103 crores.

Prem Khurana: Okay, thank you and all the very best with you.

K Venkata Ram Rao: Thank you.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC.

Parikshit Kandpal: My question is on unbilled revenue in the Irrigation segment. So you said I think earlier Venkat Sir said that it's about INR900 crores with total exposure to Irrigation projects?

K Venkata Ram Rao: Yes correct.

Parikshit Kandpal: So is the now that matter is now sub-judice, so is the client now certifying the unbilled revenues?

K Venkata Ram Rao: Client they have annual revenues, out of INR900 crores, INR600 crores is the certification, INR300 crores is that unbilled. Out of INR300 crores, INR100 crores that has been certified post quarter results. So as of date, only INR200 crores are there, which is yet to be certified.

Parikshit Kandpal: But is the Telangana Government, I mean, the department is certifying the date?



K Venkata Ram Rao: Yes, they are certifying. We received a certification of INR100 crores actually after June. After post June we've received a certification of INR100 crores.

Parikshit Kandpal: Now coming to the payments. I mean the payment comes from usually from state budget. So has the part of the payment or the entire amount? Is it now part of the state budget? How will you fund this? Is that all we have to make payment?

K Venkata Ram Rao: But Kaleswaram Package IV for is still they are trying to get actually bank disbursement, but it's related to the bank funding from the PFC and NABARD. Package 3 is that there's no outstanding. So Package 4 is come almost out of INR600 crores, INR557 crores from the Package 4 only and Package 4 still they're trying loan from the PFC and NABARD. So Package 4 is under the consideration with the bank actually. So once they get the bank disbursement, they will get money.

Parikshit Kandpal: Because earlier, I remember this was funded by NABARD. So you said, I think, NABARD is not disbursing the loans, right? So they'll need to find out new lenders to this project.

K Venkata Ram Rao: No, that they are working on because they have that limit of FRMB. So they are working on that and they have to put their reported time duration to get their disbursement from funds and institution. So when we are discussing with the Government of Telangana, they are telling that they are working on that.

And because as you know that the government has its own commitment towards other things also. So they are just thinking how we can resolve it. The management is continue following with the Government of Telangana to get release of money.

Parikshit Kandpal: So when is the last time you got the payment from the government?

K Venkata Ram Rao: We got payment of -- INR150 crores in month of February, actually.

Parikshit Kandpal: So after that, there is no payment. And since how much of work you have done after February till now until this August?

K Venkata Ram Rao: It's just around INR300 crores of work done because they have certified INR577 crores in the March month.

Parikshit Kandpal: So because I know what gives you confidence now that you will get money because they are not paying so much of time as you're putting in your money.

K Jalandhar Reddy: Sir, so generally, if they don't want to pay, they insist us to stop the works. So, which they haven't done, that's the gut feeling, sir. Second, actually, I myself have spoken to the concerned minister also if you want us to continue, we'll continue. Otherwise, we'll stop the works because we cannot suffer this much payment delays.

Which I clearly told him that either you continue or you ask us to close, we'll close it also. That's what we gave him the payer offering to operate. But he himself said no, we're going to solve and we want to do it because after a project has reached almost 70% above, there's no question that we will abandon that because the state will be the biggest loser, if he does that.

That's what this thing. So he can himself said that word. So that's why we are continuing to and the overhead is also clocking and everything is clocking and then we have to close the contract or we have to completely do the contract. So there's no in between option for us to operate. That's the major issue, that's where we are continuing the thing.

Parikshit Kandpal:

And sir, my last question is on the Andhra Pradesh, we've been talking a lot about ordering from that segment. So have you started seeing some bids coming and new bids coming in? And what do you think would be the realistic number based on your interactions with the government officials and the secretariat, how much awards and what segments they should be able to give in this financial year? And how much you're targeting from the state?

K Jalandhar Reddy:

So actually, my target is about, say, INR1,000 crores to INR2,000 crores only. Lower side, I'm keeping it around INR1,200 crores, I'm keeping it. Only 1 project or 2 projects because I cannot get more on that as you know that. That's the thing. And the pipeline concerned, they have come out with the news that they are starting some village roads and all, viability gap methods.

And actually, I literally had discussion with them that the chief secretary, he asked, he called a small meeting to the contractors who are working in their sector. Mainly NHAI contractors they call them. So we have given our presentation stating that rural roads cannot be worked with the arrangement of, let's say, PPP models, the viability gap funding.

The major problem will be facing is of revenues and we don't know what sort of revenues are going to come and what sort of development do you want and what will be the cost towards that. So definitely, that's going to be ruled out sections. So we were purposing that hybrid model, if you have the growth fund, any of that to go for the village of this thing.

Normally, the grant asked by the agency will be more than 40%. So if more than 40%, we have to pay to take 40% and go for HAM model which is going to be more viable for you. And in future, you will get easy instalments to pay. That's what the suggestion we gave, sir. I think hopefully, they had come out with that actually.

And the contract size as what you have asked, contract sizes are around, say, INR800-plus crores onwards, there are contracts group because PPP model means, they have go for bigger size only. What we have seen is that above INR800 crores only all that products are there.

Parikshit Kandpal:

Okay, sure sir. And thank you and all the best.

Moderator:

Thank you. Next is a follow-up question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah:

Yes. Sir, consolidated cash is how much as on June?

K Jalandhar Reddy:

Yes, Venkata, consolidated cash he is asking.

K. Venkata Ram Rao:

It is around INR70 crores, sir.

Shravan Shah:

Okay. And sir, just for monetization. So just if you can repeat, so we are looking to monetize 4 HAM projects and we say that 3 will be done by September '25 and 1 we are looking at. So in

terms of the cash, when we are looking to get the cash and if possible in terms of a broad range in terms of the valuation, how many are looking at?

K Venkata Ram Rao: So that valuation discussion is going on. So we definitely will get very good valuation. But as far as Pallani is concerned, that we will do in this year and other project by September '25. And then because we are under discussion with them actually. So we will tell the actual value, but we're taking definitely very good value.

Shravan Shah: And this entirely with the 1 buyer, the entire 4 projects?

K Venkata Ram Rao: We are taking it as a bulk on it because for the entire 4 projects actually, we'll do with 1 of the investors.

Shravan Shah: Okay, thank you, sir.

Moderator: Thank you. Next follow-up question from the line of Jiten Rushi from Axis Capital. Please go ahead.

Jiten Rushi: One question which I have is on the claims part. So any more claims you are expecting in this year or what you receive in Q1?

K Jalandhar Reddy: Clearly, we are participating in VSV, we are participating in that Vivad Se Vishwas thing. So we have proposed all the projects, what are the pending claims that are there. We are proposed on it. Certain claims are getting agreed by NHAI. And I think you what I've seen that cash inflow is because of that only. We have some Odisha projects, one of the claim is submitted and another one is deferred by them. So that we are going with the court.

So around INR25 crores, they have been agreed and around INR70 crores, they have agreed from the Odisha contracts. And there is some 1 more in the AP-07, which is Islam Nagar to Kadthal project in the Telangana region. But that has got some claims and those claims refer to VSV only. So I think NHAI is going for EC in next EC or coming EC. I don't know really. The queue is getting formed over there.

Jiten Rushi: So what was that amount for this AP-07?

K Jalandhar Reddy: I think the claim is around INR200 crores plus, sir. So after VSV calculation we have to see how much it will get.

Jiten Rushi: And sir, you said that Odisha project. The 1 which was admitted was INR25 crores and 1 which was deferred INR75 crores, right, sir?

K Jalandhar Reddy: One deferred was around INR25 crores. The other one admitted about INR70 crores. So after VSV calculation, it could be around, say, some around between 50%.

Jiten Rushi: Okay. And sir, this monetization, which you said for Palani, we can export the project at the end of this year and the balance for the Kerala and other Chittor will be by end of next year, right sir?



K Jalandhar Reddy:

Yes, correct.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

K. Venkata Ram Rao:

Thank you all for joining us on this call. Please reach out to our Investor Relations Consultant Strategic Growth Advisors or us directly so if you have any further clarification. We can now close the call. Thank you.

Moderator:

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