



“KNR Constructions Limited Q3 FY22 Earnings
Conference Call”

February 15, 2022



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LIMITED**



*KNR Constructions Limited
February 15, 2022*

Moderator:

Ladies and gentlemen, good day and welcome to the KNR Constructions Limited Q3 FY22 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan – VP, Finance, KNR Constructions Limited. Thank you and over to you, sir.

S. Vaikuntanathan:

Good afternoon, everyone. Welcome to our earnings conference call to discuss the financial results for Q3 and nine months ended FY22. Along with me, I have Mr. K. Jalandhar Reddy – Executive Director, Mr. K. Venkata Rama Rao – General Manager, Finance & Accounts and Strategic Growth Advisors our investor relations advisors.

I would start with very brief highlights of budget 2022-2023 for the infrastructure sector followed by industry updates and operational highlights, post of which Mr. K. Venkata Rama Rao, General Manager takes you through the financial highlights.

To start with I hope that you, near and dear ones are safe during the third wave of the COVID-19 pandemic. Our Honorable Finance Minister has presented a CAPEX-heavy budget that will kickstart **the growth momentum** in the economy. This year's budget has seen a huge increase in spending on roads and highways when the allocation to MORTH has increased more by Rs. 80,000 crores to about Rs. 1.9 lakh crores from Rs. 1.11 lakh crores which is a growth of around 70%. During this budget allocation to NHAI more than doubled. That is 134% has come to allocation during the previous year's budget. This huge increase in allocation was backed by the government's plan to expand the national highways network by 25,000 kilometers in the next fiscal year. Apart from investments in roads and highways this year's budget also provided thrust on river linking project which will give a further boost to the water availability across the various regions, along with similar to irrigation projects.

Now moving on to the industry update the period of April 2021 to January 2022 this had a construction of 6,684 kilometers of national highways as compared to 9,132 kilometers of roads sector during the same period of last year. The slow pace of construction activities has been on account of disruption due to COVID-19 pandemic, with elongated monsoons during the current financial year. The similar trend has also been observed in the contract awarding activities when the Ministry awarded 6,000 kilometers for the year up to January 2022 as compared to 6,696 kilometers the corresponding period last year. It is expected that the later part of the current quarter will witness an increase in project orders rewarding action.



*KNR Constructions Limited
February 15, 2022*

Now coming to the key updates of the company. The project execution phase continued the momentum during the quarter.

The percentage of physical progress as of December 31st, 2021, for the HAM projects is as follows:

Ramsanpalle to Mangloor is at 100%. Chittoor to Mallavaram is at 99%. Trichy to Kallagam is at 86%. Magadi to Somwarpet at 48%. Oddanchatram to Madathulakam is 48%.

During the quarter we achieved financial closure of 2 SPVs that is KNR Ramanattukara Infra Private Limited on 6th November 2021 and KNR Guruvayur Infra Private Limited on 9th November 2021 and received appointed date for both of these projects as on 21st January 2022. We have also signed concession agreement for the Chittoor-Thatchur HAM project on 17th November 2021. We are in the process of achieving financial closure which is expected to be by April 2022.

The total equity requirement for all 8 HAM projects is Rs. 1,099.55 crores out of which we have already invested Rs. 484.94 crores. The incremental equity requirement of Rs. 614.61 crores to be infused, Rs. 132.55 crores, Rs. 262.1 crores, Rs. 131.78 crores and Rs. 88.17 crores for FY22, FY23, FY24 and FY25, respectively. The company has transferred 49% of the stake in two of the subsidiaries KNR Tirumala Infra Private Limited and KNR Shankarampet Projects Private Limited to Cube Highways and Infrastructure on 30th December 2021. The total equity invested in these two projects is Rs. 288.49 crores against which we will receive Rs 338.15 crores implying a valuation of 1.2 times of the book value of this investment. However, till December 2021, we have received Rs. 245.32 crores on the transfer of 49% stake in these two SPVs and a balance of Rs. 92.83 crores are expected to be received on transfer of the remaining percentage of stake by June 2022.

Post transfer of 100% ownership to Cube for 3 HAM projects the debt will be reduced by Rs. 1,185 crores approximately. Also, the company has subscribed to 100% partnership interest in two LLP's named Manjeri City Infrastructure & Developers, LLP and Benedire Infrastructures & Developers LLP which have the quarry lands along with licenses. The intent for this is to facilitate the implementation of highway construction projects in the state of Kerala by the company.

During the quarter, the India rating has revised this rating on the long-term banks facility for the company to IND AA from IND AA-. The short-term rating was also reaffirmed at IND A1+.

The total collection for the Bihar projects that is Muzaffarpur Barauni in Q3 FY22 and the nine months ended FY22 has been Rs. 8.88 crores and Rs. 28.2 crores, respectively.



*KNR Constructions Limited
February 15, 2022*

Now coming to the order book position as on December 31st, 2021, the company has an outstanding order book position of around Rs. 10,009 crores, EPC road projects and HAM projects constitute 74% of the total order book, while irrigation projects constitute the remaining 26%. Client-wise 58% of the order book is from third-party clients, and the balance 42% from captive HAM projects. The third-party order book are non-captive order book which accounts for 58% of the total order book position is distributed between state government contracts **with 42%** and 10% is from central government and balance 5% of order book is from other private players. As mentioned earlier, we have signed a concession agreement for the Chittoor-Thatchur HAM projects on 17th November 2021. The company has received sanction for the project from lenders with an estimated EPC cost of Rs. 765 crores. This order is not yet added to the order book mentioned earlier, including this order our order book would be close to Rs. 10,774 crores. This order book provides strong revenue visibility for the next two to three years.

I now request Mr. K. Venkata Rama Rao, our GM to present the results of the quarter and the nine months ended 31st of December 2021, over to you, Mr. Venkat Rama Rao.

K. Venkata Rama Rao:

Thank you, sir. Let me take you through the Q3 and nine months, FY 2022 standalone financial performance.

I will start with the quarterly highlights first, the revenue, EBITDA and the PAT for the quarter grew by 12%, 17% and 30% respectively. The EBITDA margin and PAT margin registered a growth of 100 bps and 180 bps, to 20.7% and 13.1% respectively. I would also like to highlight that there has been an exceptional income of Rs. 21.40 crores during the quarter, on the account of sale of 49% stake in 2 SPVs, as mentioned in the speech earlier.

The performance for nine months at FY22 has been on similar line with revenue, EBITDA and PAT registered a growth of 28%, 33% and 61% respectively. The EBITDA margin and PAT margin has increased by 80 bps and 240 bps to 20.8% and 11.9% respectively. It is important to note that nine months, FY22 financials has an exceptional income of Rs. 21.40 crores on account of sale of 49% stake in 2 SPVs, whereas financials for nine months FY21 has an exceptional expenditure of Rs. 11.25 crores on account of the sale of 100% stake in our Walayar BOT project.

On a consolidation basis, our Q3 FY22 revenue registered a growth of 16% where EBITDA and PAT registered a de-growth of 21% and 52% respectively. The de-growth in EBITDA and PAT is on account of modification loss accounted in two of the HAM projects that is KNR Tirumala Infra Private Ltd and KNR Shankarampet Projects Private Ltd which is due to the companies have achieved the PCOD and there is descope of the project and saving the total project cost and therein change of assumptions. With this the financial asset receivables in the respective company has been adjusted and accordingly the modification loss for the amount of Rs. 90.52 crores for the quarter and for nine months Rs. 140.52 crores has been recognized. The above transactions won't have any cash impact to the company as these are IND-AS adjustment entries



only. However, on a nine-month basis, our revenue and EBITDA grew by 31% and 9% respectively, whereas the PAT de-grew by 22% due to the reason mentioned above.

Now moving to a standalone balance sheet, the company continued to maintain a strong balance sheet and remained debt-free with cash and cash equivalent of Rs. 407 crores. The working capital days as on December 2021 stood in the range of 40 days with the realization of debtors from 74 to 55 and creditors days from 49 to 31 days along with four days reduction in inventory from 20 to 16 as compared to September 2021. The consolidated gross debt as of December 31st, 2021, is Rs. 1,374 crores as compared to Rs. 1,360 crores as of September 30th, 2021. The consolidated net debt to equity as of December 31st, 2021, stands at 0.4x as compared to 0.6x as of 30th September 2021.

With this, we can open the floor for our questions and answers.

- Moderator:** Thank you very much, ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ashish Shah from Centrum Broking. Please go ahead.
- Ashish Shah:** The first question is on the irrigation side. The package three project of Kaleswaram where are we in terms of the availability of land and how do we expect execution to progress on this project as we go forward?
- K. Venkata Rama Rao:** Which one package three and package four?
- Ashish Shah:** Package three, the 700-crore project.
- K. Venkata Rama Rao:** Actually, package three now we got some of the land and we have started work on that. In this quarter actually, we have done some billing, now even package three has also started, but in slow pace, but this quarter it will expected to give definitely revenue to the company.
- Ashish Shah:** If you can update on what is the availability of the land there? Do we expect this project to go at a very fast pace now, or this will still be a slow start?
- K. Venkata Rama Rao:** It will be a slow start only because this project is a canal work, so it is spread in almost 13 km of the canal work is required to be done, right now we have got around 2 km so definitely it will not be that much pace.
- Ashish Shah:** Would you expect some 20%, 30% execution on this over the next 12 months or so?
- K. Venkata Rama Rao:** Definitely.
- Ashish Shah:** In Chittor-Thatchur what is the land acquisition status as of now?



*KNR Constructions Limited
February 15, 2022*

- K. Jalandhar Reddy:** Chittoor-Thatchur I think the payment disbursement has not yet started, when I made an enquiry with PD, he is very confident for payment before 45 days, one week back I have spoken to him, so probably within 40 days they will be able to deliver the payment that's what he said. I think now he is depositing the cash for kala, for disbursement of payment.
- Ashish Shah:** You said by April we expect the financial closure to be done. By can we expect that by April-May the appointed date will also come or that ...?
- S. Vaikuntanathan:** We can expect somewhere in the mid of May, or end of April we can expect that.
- Ashish Shah:** Lastly, any plans on monetizing even the Muzaffarpur-Barauni project or do you think that's not feasible at this point of time?
- S. Vaikuntanathan:** Actually, at this point of time monetization may not be possible because due to the broken bridges and all that toll is under the sun, otherwise we would have got augmentation clause within the coming three, four years. For the shorter period it is ready to come up. But again, they had been a certain moment that are happening in NHAI, four laning of the project I think NHAI is also moving DPR and everything. DPR reports are also submitted to headquarters HO. Hopefully, we'll have to see within one, two years, we may get some news that NHAI may go for four-lane, and they may ask us to take up a strategic choice as per contract or we'll have to bear it.
- Moderator:** The next question is the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** If you could just update on the status of other irrigation projects, Mallanna Sagar is complete or there is some work pending in it?
- K. Venkata Rama Rao:** Mallanna Sagar is almost completed, only 50 crores of work is only pending in Mallanna Sagar and vattam is also around 74% completed as of now. this 74% includes that, we have done the work and we have to raise the bill and the package four is around 28% completed.
- Vibhor Singhal:** Which one did you say 74% complete?
- K. Venkata Rama Rao:** 74% is vattam actually.
- Vibhor Singhal:** Any problem with the payment, what are the total receivables which would be there from all the irrigation projects at this point of time?
- K. Venkata Rama Rao:** As of now around Rs. 590 crores of the receivables are pending, last quarter it was around Rs. 700 crores. During this quarter we have received a major chunk of around Rs. 380 crores we have received. As of now outstanding is around Rs. 590 crores.



*KNR Constructions Limited
February 15, 2022*

- Vibhor Singhal:** On the execution front in this quarter, the execution was on the higher side, almost the same as the last quarter. Any specific reason that we are probably not able to do the kind of work that we probably thought, or the execution could have been higher and linked to that is what is our full-year top line that we are now looking for the FY22?
- S. Vaikuntanathan:** Q3 we have not expected this much of turnover because in Q3 there is excessive rains in this quarter and there is a COVID impact also there, but even then, we are able to maintain that our Q2 top line. But if we compare to last year Q3, definitely there is around 28% jump is there. So that is definitely a good sign. Generally, Q3 this industry issue will be there and for the overall year because right now we have done around Rs. 2,250 crores. We expect that this year we may close somewhere around Rs. 3,100 crores.
- Moderator:** The next question is from the line of Paikshit Kandpal from HDFC Securities, please go ahead.
- Parikshit Kandpal:** My first question is you said that irrigation receivable is Rs. 590 crores, over and above this what is the unbilled revenue?
- K. Venkata Rama Rao:** It includes unbilled revenue.
- Parikshit Kandpal:** So, it includes unbilled revenue and debtors both?
- K. Venkata Rama Rao:** Yes, put together it is Rs. 590 crores.
- Parikshit Kandpal:** On these projects, you don't take any advances, on the liability side you won't have anything?
- K. Venkata Rama Rao:** Definitely there is no advance from the government. If complete possible we should get from the Department only.
- Parikshit Kandpal:** So, what is the total revenue you have booked in nine months this FY from irrigation projects?
- K. Venkata Rama Rao:** For irrigation projects, nine months revenue will be around Rs. 700 crores.
- Parikshit Kandpal:** Almost your receivable days is almost a year, because Rs. 590 crores is outstanding and the 700 crores is your receivable?
- K. Venkata Rama Rao:** Rs. 700 crores is the turnover actually.
- Parikshit Kandpal:** Yes, but receivable is Rs. 590 crores, huge working capital cycle for each project? Almost 250 days.
- K. Venkata Rama Rao:** Little louder please.



*KNR Constructions Limited
February 15, 2022*

Parikshit Kandpal: I was saying that if I analyze this number and the say if you do for this year about Rs.1000 crores, receivable is almost Rs. 590 crores, so we have a huge working capital cycle stuck here in these projects, almost like 250 days? More on an ongoing basis we will continue to do this business because of the risk of receivables, a huge working capital cycle of almost about 250 days?

K. Venkata Rama Rao: Actually, if you see receivables is around Rs. 170 crores which have been certified, so we have to compare with Rs. 170 crores. Rs. 590 crores is included in the work done which has yet to be certified. We have raised the bills but yet to be certified, based on that it is Rs. 590 crores otherwise it is Rs. 170 crores, but still irrigation project has a very good margin and what are the margin increase in the company for the last especially two years what we are seeing is, that is also one of the reasons of irrigation because it is going to give very good contribution for PAT also. So definitely this is a factor we are looking, definitely there is a challenge in the receivables, but the sector is like that only, but we are still hopeful that whatever the receivables pending are there we are definitely going to get from the Department.

Parikshit Kandpal: My second question is now the irrigation order book is reducing in the overall mix. What's your outlook on irrigation order pipeline and there are not many orders, how do you look to grow your order book? Are you looking at diversifying outside the south region or are you looking to diversify beyond roads to compensate for this decline in the irrigation order book?

S. Vaikuntanathan: Actually, irrigation orders there are few more to come from Telangana Government. We can even plan a few projects in Karnataka also, however, there's no bright thing that is coming out, as you rightly said. We are also replacing these projects with a few HAM projects also. And the bidding is on for that. However, we are now targeting around Rs. 3,000 crores worth of orders to be added in this year which the bidding is going on. There are a few projects in Karnataka, Tamil Nadu as well as in Andhra Pradesh also few more projects are coming up. We are planning Rs. 3,000 crores order book.

Parikshit Kandpal: What is the total order inflow in this financial year?

S. Vaikuntanathan: Around Rs. 4,000 crores.

Parikshit Kandpal: Kerala was last financial year; I think March you got last year.

S. Vaikuntanathan: We got, but it is added in this year because, after that we did FC and they funded it, so once we get their funded then only will include in the order book.

Parikshit Kandpal: So, total Rs. 4,000 crores you have got.

S. Vaikuntanathan: Yes, 4,000 crores.

Parikshit Kandpal: Another Rs. 2,000 crores you will take so that we go for Rs. 6,000 crores.



- S. Vaikuntanathan:** Yes, for this year.
- Parikshit Kandpal:** Last question on this aggregate mine. You had envisaged an investment of and buying out land quarries 96, 97 crores, including the CAPEX. When you update, what is the status of those mines you spoke about two mines earlier in the call, if you can give some more clarity whether the CAPEX has been incurred, how much of that is incurred in Q3 and the status of execution of the two Kerala projects now, since the appointed date has come? Whether there is an availability of aggregate now with you mines coming in?
- S. Vaikuntanathan:** Quarries have been purchased in the Kerala region, we are having two packages, out of two packages around Rs. 90+ crores is invested into these two types of quarries, both are already commenced for operations, one quarry permission is pending, the Green Tribunal is to sit for that. I think by this month-end or the second week of next month the commencement of Green Tribunal is happening, then we can get through the permission and the erection, and everything is completed, and we are literally waiting for the quarry permission to come.
- Parikshit Kandpal:** There was no negative surprises on costing, you mentioned last time that in the market aggregate is available at Rs. 25-30 a cubic feet and you were looking to mine at a landed cost of Rs. 16-18 cubic feet. So, you won't have any negative surprises on the margin?
- S. Vaikuntanathan:** Of course, certainly no negative surprise, but the thing is that the current prices are actively going up the market price in the aggregate markets is going up fairly nowadays. Generally, we have started procuring at Rs 19, now I think more or less we are paying Rs. 45 also for certain vendors and new vendors are not ready, entry they're not taking at Rs. 25 also today. Because we were targeting little more aggregate from the local market also because, we would be requiring around 45 lakh metric tonnes and even we source 15-15 from the new quarries what we bought we'll have to arrange around 15 lakh metric tonnes out of other resources, I mean to say in the market. Only thing is that the major component is under control with us. Definitely we will try to keep up the price.
- Moderator:** The next question is from the line of Raveena Reddy from Nareli Investments, please go ahead.
- Raveena Reddy:** What is the reason to downside margin this quarter profit down to 5.2% versus 12.6%?
- K. Venkata Rama Rao:** You are talking on consol basis?
- Raveena Reddy:** Yes, consolidated basis.
- K. Venkata Rama Rao:** Standalone basis will definitely there is an improvement but consol basis what has happened in our two projects actually. As we explained in our speech, KNR Tirumala and KNR Shankarampet those two projects have achieved the PCOD and in PCOD in one project we got the annuity also. What happened was there were some deals and there were some cost savings



*KNR Constructions Limited
February 15, 2022*

the project. There was a change in assumptions of the costing this project, based on that, what are the financial assets actually we recognized during the period of concession stage. So, we have to adjust that and arrive the realizable value of the financial assets receivable. This is only, there is no cash flow impact of this only INDAS adjustment entries are there.

Raveena Reddy: Usually we keep an asset like model in our company. So, when we'll be able to divest Patel KNR, Karnataka, Telangana, Muzaffarpur-Barauni?

K. Venkata Rama Rao: Out of these 2 are annuity projects, only almost 5 years are left actually for these annuity projects. So definitely this time there's not much cream is there for this project, we have to do one measurement each on these projects and then we had to hand it over to the authority. As far as Muzaffarpur is concerned, definitely we want to dilute but as our ED sir told you there is some challenges of selling this project, but we are really looking for to dilute, but really, we had to see.

Raveena Reddy: Or any old claim we received from NHAI in this quarter?

K. Venkata Rama Rao: As of now nothing.

Raveena Reddy: Or likely to appear in March '22?

K. Venkata Rama Rao: March 22 we are expecting one claim. One of our Patel KNR JV, where our portion of around Rs. 10 crores, we are expecting in next quarter.

Moderator: The next question is from the line of Faizal Hawa from HG Hawa and Company, please go ahead.

Faizal Hawa: This book entry would not have been put into the consol. numbers. What would have been our EBITDA? That's one, secondly, is there any plans to sell the Kerala project also or rather pre-sell the Kerala project to a few or some other refinances investor? Because international interest rates are now rising and our Indian interest rates may not rise that much. It could happen that we do not have demand for these projects going forward. Are you not worried about having such a less order book going forward in this year?

K. Venkata Rama Rao: We have just now started, got the appointed date for Kerala projects and also the other one, the financial closure is in process and expected to complete by May 2022. Huge time is available., we will wait for some more time, and we'll see how the developments are going on. As far as the Order book is there we are expecting because NHAI so far, this 2,500 kms and we are expecting that we should achieve a target of 4,800 kms but it may be challenging for NHAI, but a lot of these are coming, we are hoping that at least the target is between Rs. 2,000 to 3,000 crores we should get by March 2022. So, we are hopeful that NHAI should award new tenders.

Faizal Hawa: Conservatively what could we be our revenue target for next FY23.



*KNR Constructions Limited
February 15, 2022*

- S. Vaikuntanathan:** FY23 we are not committing as of now, but we are looking somewhere between, around Rs. 3,500 crores.
- Faizal Hawa:** About the EBIDTA, if you could answer, if this book entry would not have been there, what would have been our console EBITDA in Q3 FY22?
- K. Venkata Rama Rao:** You can add Rs. 140 crores.
- Faizal Hawa:** EBITDA as a percentage would have been how much?
- K. Venkata Rama Rao:** It will be around 26%.
- Faizal Hawa:** That means the irrigation projects have contributed substantially to the EBITDA in this quarter also.
- K. Venkata Rama Rao:** Yes, definitely. Irrigation project and HAM projects.
- Faizal Hawa:** This 140-150 crores we will get claims later on or how will this be compensated to us?
- K. Venkata Rama Rao:** This is only book adjustment. Whatever financial assets receivable we have over recognized. We are taking at par value only. It is only an IndAS adjustment.
- Faizal Hawa:** So, fair to assume that our EBITDA is 26% in quarter three also.
- K. Venkata Rama Rao:** It should be, yes.
- Faizal Hawa:** If you could answer my question about the interest rates and pre-selling the Kerala projects?
- S. Vaikuntanathan:** Pre-selling the Kerala projects, it is the cube is coming forward again. The discussion is on. I think as and when the conclusions are made definitely, we will come back with a detailed plan.
- Moderator:** The next question is from the line of Jainam Shah from Equirus Securities.
- Jainam Shah:** Can you repeat the total HAM investment required and how much to be done in the next two to three years? I missed that.
- S. Vaikuntanathan:** We have informed in the meeting that the total equity requirement will be around Rs. 614.61 crores to be infused in the next 2-3 years, 132 crores, 262 crores, 131 crores and 88 crores.
- Jainam Shah:** This is including the latest project which has not yet received the appointed date or is it excluding?
- K. Venkata Rama Rao:** It will include our Chittoor project also.



*KNR Constructions Limited
February 15, 2022*

Jainam Shah: We have received some portion from the Cube for two of the assets. So, when the balance portion is expected to come, in how much time? Have we received that timeline of six months from COD or is it yet to achieve?

K. Venkata Rama Rao: Actually, the second portion should be around the COD plus 6 months but that is definitely after we get the NHAI approval. For that actually for the Tirumala project, we have already applied, and we are expecting that we should be able to close it by March 2022. And as far as our Shankarampet project is concerned because we received PCOD in October 2021, so it will go up to April 2022 end only, so we will be able to do it after six months. And Srirangam we already applied for 100% so we are expecting that the Srirangam and Tirumala, that should be closed by March 2022 and Shankarampet may be by April or May 2022.

Jainam Shah: So, overall all the amounts will be received by the June quarter.

K. Venkata Rama Rao: Yes, definitely.

Moderator: The next question is from the line of Mohit from DAM Capital.

Mohit: The first question is on the order inflow. I understand the number of irrigation projects tenders that are open in Telangana and Andhra Pradesh, is it possible to comment on that?

S. Vaikuntanathan: Andhra we are not focusing, though there are projects coming up, we are not focusing on Andhra because not sure of the funding thing. Of course, in Telangana, we have projects to go on. As of now, we have a good experience here.

Mohit: From the NHAI side, given the fact that there are large tendering expected in the next couple of months, what are the risks that we will be able to achieve a higher number rather than 2000 crores which you said right now? And what worth of tenders bids you have already submitted for NHAI which is yet to open?

K. Venkata Rama Rao: Actually, we have submitted a few projects, . Three HAM and 1 EPC. And we have submitted and waiting for the results to come up. Two projects are in Kerala I believe. One is in Andhra Pradesh. We have to see what happens because can't say the pipeline thing and all. And going forward we are also focusing on Karnataka, Kerala, Tamil Nadu, Andhra Pradesh also. Few projects are also coming up in Telangana, we are looking at like Warangal-Karimnagar region, with a project of Rs. 1,500 crores is there for bid, we are focusing on that. Apart from that some EPC projects there in Kerala. We are keen and working on that.

Is it an easy target to achieve?

That's what we are thinking we are year full target, and we have to get yearly Rs. 3,000 crores order has to be added.



- Mohit:** Is there any slow-moving order apart from Kaleshwaram and the Chittoor Thatchur to be started. Can I assume that the rest of the order, the work has started?
- K. Venkata Rama Rao:** As of now, there is no slow-moving. The entire order book actually work is going on.
- Mohit:** Is it possible to give a breakup of the revenue for this quarter between irrigation, HAM and EPC?
- K. Venkata Rama Rao:** For this quarter actually, we did 36% in irrigation, in HAM it is 34% and EPC it is 20% and 10% in our back-to-back.
- Moderator:** The next question is from the line of Uttam Kumar Sumil from Axis Securities.
- Uttam Kumar Sumil:** What kind of CAPEX we are envisaging this year and the next year?
- K. Venkata Rama Rao:** For these nine months we did around 130 crores of CAPEX. And we expect that this year we will do somewhere around Rs. 180 crores CAPEX and next year will be on the same range, around Rs. 150-160 crores we will do.
- Uttam Kumar Sumil:** On the railway side, actually last time we had said that we are diversifying into Railways. So, anything that we have bid in the railways space or something we are expecting from the railway side in terms of the order to know?
- K. Venkata Rama Rao:** The railway orders we haven't started bidding because the target of Rs. 2,000 to 3,000 crores whatever we said, we are having the feeling that should come from irrigation and from highway projects itself will fulfil our requirement this time. Probably will step out once this is not possible.
- S. Vaikuntanathan:** Moreover, we are having around 2.5 years of revenue on our hand.
- Uttam Kumar Sumil:** One last question on the consolidated account. There has been a sharp increase in other expenses. So, that was due to this de-scoping of the project.
- K. Venkata Rama Rao:** Yes, same thing. The reason I just explained you, that reason only.
- Moderator:** The next question is from the line of Shravan Shah from Dolat Capital.
- Shravan Shah:** Most of the questions have been answered, just trying to further understand in terms of you mentioned the 3 HAM and 1 EPC, so what would be the value for the same.
- K. Venkata Rama Rao:** Ticket size is about Rs. 1,000 to 1,200 crores.
- Shravan Shah:** Even EPC only also?



- K. Venkata Rama Rao:** EPC is Rs. 1,400 crore project.
- Shravan Shah:** This is NHAI 1,400 crores EPC projects?
- K. Venkata Rama Rao:** Yes. Kerala NHAI.
- Shravan Shah:** And how much more are we planning to bid in the next 1.5 months before March ends, particularly for NHAI?
- K. Venkata Rama Rao:** Actually, particularly from NHAI only we are hoping that will happen in the coming 1.5 months. But I am not very keen that it should happen in 1.5 months. Most probably what happens whenever the year-end comes up NHAI is a little bit quicker to give out the tendering process. At this point of time, the crowd also will be there as well if the market is sensible, definitely things are possible. We can even have a HAM within say 2 months or 1.5 months' time.
- Shravan Shah:** And in terms of the margin, no need to ask, but still asking in terms of the 19%-20% kind of an EBITDA margin on standalone that will continue.
- K. Venkata Rama Rao:** So, we'll try our best.
- Shravan Shah:** A couple of data points on the balance sheet front. Retention money withheld, mobilization advance receivable and mobilization advance to be paid and unbilled revenue.
- K. Venkata Rama Rao:** Retention receivables is Rs. 157 crores and mobilization advance is liability is Rs. 120 crores.
- Shravan Shah:** And unbilled revenue?
- K. Venkata Rama Rao:** Rs. 257 crores.
- Shravan Shah:** So, when we said that the 10 crores claim to be there in Patel – KNR JV. Previously, I think our 9 crores early completion bonus would be there. So, both put together 19 crores would be there in this fourth quarter. So, to that extent the EBITDA margin would be higher in the fourth quarter. Is that understanding right?
- K. Venkata Rama Rao:** Yes, it should be like that provided OIL and everything doesn't go up because of the threats that are coming from Ukraine and Russia.
- Shravan Shah:** Hopefully now it should settle down, no more negative surprises to come.
- K. Venkata Rama Rao:** Yes, we are hoping that definitely.
- Shravan Shah:** Any other arbitration claim? Previously, I think we have spoken about the 70 odd crores that we can see something, so anything to come on that, any positive surprise on arbitration claims.



*KNR Constructions Limited
February 15, 2022*

- K. Venkata Rama Rao:** Right now, not there.
- S. Vaikuntanathan:** All the arbitrations are on, but it's quite not possible by this six months there is nothing going to be solid that's going to come up. But we may expect again in fourth quarter further.
- Shravan Shah:** And the new one both Kerala when we received the appointed date, how this quarter we can expect the revenue?
- K. Venkata Rama Rao:** Moreover, that foundation work and earthwork are only started in this time. There is certain completely dismantling of those buildings and all is still under progress. So quite possible we will try to do something around Rs. 100 crores this two months, February and March. And if that picks up then its okay. But we are also expecting the rainy season to come up in June and July. So, we have a very short time also to do a lot of work is there to do. At least if the preparatory work if we do and then we can be prepared for the rainy season.
- Shravan Shah:** Are we expecting to book revenue for the Bangalore-Mangalore EPC project in Karnataka?
- K. Venkata Rama Rao:** Yes. Last month we did around Rs. 22 crores. That is the starting month. Though it is two months completed but the first month as you know very little we did. The second month we could do and this month we are expecting around 35 to 40 crores.
- Moderator:** We move to the next question from the line of Subhadip Mitra from JM Financials.
- Subhadip Mitra:** I am sorry I joined the call a little late so some of my questions maybe something that you may have already answered. So, kindly repeat the answers in case you have? So, firstly I understand that we are looking at revenue guidance of somewhere around 3,500 crores in FY23. What kind of growth would you be anticipating for FY24 based on the current order book?
- K. Venkata Rama Rao:** No doubt, whatever the order that you said now, that would be executed in the coming 2.5 to 3 years. So, no doubt there should be exponential growth that would be coming up in 2024. And again, added to that another new orders also could come up and they would also pile up some revenues. However, any project if I go for bidding today, quickly that can come into operation only after 8 to 9 months. So, definitely that nine months gap is there, so we are trying to push all the projects a little bit one year ahead of thinking should be that which we have planned, and we are now going ahead. If we successfully maintain such things, definitely we will do a nice growth. It is quite difficult to say what are the figures and all. We have quite good targets, definitely if we deliver something beyond 15% year on year growth, we will be very happy.
- Subhadip Mitra:** Similarly on the order inflow front, I am not sure if you mentioned any orders inflow targets that you are looking at for FY23 or FY24.
- K. Venkata Rama Rao:** Next year definitely that around Rs. 3,500 crores which we are expecting, and we will try for something better. But again, depending on the crude oil prices and all this, we are expecting



*KNR Constructions Limited
February 15, 2022*

certain growth that is happening here as well. If it has some impact on the margins, I can't say, but otherwise we are quite confidently going forward to deliver such.

Subhadip Mitra: And margins, I believe you mentioned you should be able to maintain around the current 19%-20% levels?

K. Jalandhar Reddy: Actually, if you look at past records it says that we will have to see for that again. Because the work which we have started they are starting after 9 to 10 months after we made bidding on this. And suddenly the growth of cement, steel is a bit bothering on our margins. So, we expect if I am able to deliver something around 15%-17% that would be the best, what I am thinking. If at all it comes better than that we are happy.

Subhadip Mitra: On the margins front, on the same point while you are saying that commodity price is a risk. If you could also specify what component of your existing order book is fixed price which may be, let's say exposed to commodity price risk.

K. Jalandhar Reddy: Commodity price it is exposed almost most of the items are from that, you know today if you take any project that cement concrete was almost contributing 50% to 60%, sometimes it is 45% to 55%. So, anywhere equally they are running with their own other components and with cement steel companies. We are not much bothered on other items than steel and cement. Because compensation that can happen with escalation is very minimal on this and losses, we will flow out will be very big. The worrisome is that the component of cement and steel, the complete works which are tracking more than 45% is worrying sometimes of the project size.

Moderator: The next question is from the line of B Vijay Kumar from Spark Capital.

B Vijay Kumar: Can you give the order book split of the irrigation projects project-wise?

K. Venkata Rama Rao: For Kaleshwaram package 4, that is Rs. 1,249 crores. For Kaleswaram package 4 it is Rs. 695 crores. For Mallanna Sagar it is Rs. 50 crores. For western it is Rs. 495 crores. For Yedula it is Rs. 29 crores. For KP Sagar it is Rs. 11 crores. For PSK KNR JV it is Rs. 24 crores. And others it is Rs. 28 crores. Total put together is Rs. 2,500 crores.

B Vijay Kumar: And of these the Rs. 1,249 crores Kaleshwaram project is slow-moving, right?

K. Venkata Rama Rao: That is Rs. 695 crores. But recently in this quarter, it has started. Last quarter it was slow-moving but now it is again started.

B Vijay Kumar: This is the package three one?

K. Venkata Rama Rao: Package 3, yes.

B Vijay Kumar: Can you give the split of the receivables of irrigation also project-wise, Rs.590 crores?



*KNR Constructions Limited
February 15, 2022*

- K. Venkata Rama Rao:** Mallanna Sagar is around Rs.120 crores. Vettam is Rs.210 crores. Kaleshwaram package is Rs. 140 crores. Balance is others.
- Moderator:** The next question is from the line of Jiten Rushi from Axis Capital.
- Jiten Rushi:** My question is on the next year's revenue. The large projects of Kerala 2 HAM projects, the Bangalore-Mangalore which we get under execution, then the **Cheyyur-Panayu** projects and the Avinashi projects. What kind of revenue we are expecting from these projects in FY23-24, the run rate kind of? Because Bangalore-Mangalore you said from January you did 22 crores and in February you are targeting to do 35-40 crores.
- K. Venkata Rama Rao:** These projects, they need to be started from December 31st, I think it should be achieved.
- Jiten Rushi:** If I may ask you, Kerala how much we can expect?
- K. Venkata Rama Rao:** Because continuously there is a rush kind of turnover that should be expected from this. As I earlier said, we will try to deliver y-o-y 15% above.
- Jiten Rushi:** What could be the mix then in terms of road and irrigation next year any targets?
- K. Venkata Rama Rao:** The mix and all that keeps changing because the first thing will be the best. Whatever the orders now we need around 3000 crores which we have anticipated to have or estimated to have from upcoming. It is quite possible that we may have 1000 above should be from irrigation also. There are some new tenders which are coming up as well. And it is quite possible that we can even have from HAM.
- Jiten Rushi:** So basically, it was like 2000 from roads and 1000 from irrigation, that is what you are targeting.
- K. Venkata Rama Rao:** Quite possible, this combination.
- Jiten Rushi:** And irrigation segment are we looking for this Jal Jiwan mission projects?
- K. Venkata Rama Rao:** Jal Jiwan mission we are not on now. We will keep it out in future.
- Jiten Rushi:** On the NHAI bid, so we see awarding is on a slower side, but the pipeline is very strong. Do you see this February, March could be a slow in terms of awarding from NHAI and probably we can see in a significantly larger awarding probably in Q1 post the key states election gets over, any thought on that?
- S. Vaikuntanathan:** In the NHAI recent budget most of the borrowings they are from April 1st onwards. So, they may also try to go slow during February March they will maintain but they cannot complete the backlog orders and all. So, as you rightly said it may be postponed to the first quarter.



- Moderator:** The next question is from the line of Kalpit Narvekar from Allianz Global Investors.
- Kalpit Narvekar:** Just one question I have that you probably might have answered earlier, what are the receivables on the Telangana and if you could or from the Telangana government on irrigation projects and what is the split of and unbilled revenue and billed revenue in that?
- K. Venkata Rama Rao:** Total around Rs. 590 crores receivables are there, it is in billed and unbilled. Out of that around Rs. 120 crores from the Mallanna Sagar and Rs. 210 crores from the Vettam. And package four is around Rs. 140 crores and balance is others. This is the breakup of that.
- Kalpit Narvekar:** Any thoughts on when you would receive those?
- K. Venkata Rama Rao:** Out of that by March we expect around Rs. 150 crores. Because package four payment definitely we are going to receive by next month. So, we expect that around Rs. 150 crores payment definitely we should have received by March and balance is definitely we are pursuing with the government, and we are following up also. So, Rs. 150 crores definitely we are going to receive.
- Moderator:** The next question is from the line of Rohit Natrajan from Antique Stock Broking.
- Rohit Natrajan:** My first question is help me reconcile these numbers in your order backlog, sir, especially the irrigation part. As I understand this Palamuru Rangareddy Lift Irrigation project, both packages put together should be closer to Rs. 1,000 crores. Am I right? Package 4 and package 3 how much is the pending?
- K. Venkata Rama Rao:** Package 3 is entire Rs. 695 crores is the pending order book. Package 4 is Rs. 1,250 crores. Mallana Sagar is Rs. 50 crores. Vettam is Rs. 495 crores.
- Rohit Natrajan:** I was saying package 3 what is that amount?
- K. Venkata Rama Rao:** Rs. 695 crores.
- Rohit Natrajan:** And the second thing, what we hear even in the latest comments by this Krishna River Management Board that there is no DPR permission and most likely this may go for an NGT ban again, something like that. If that is the way which it is going through is there a likelihood that this project could get canceled or something like that?
- K. Venkata Rama Rao:** As of now the department front is clarified that we can work with. If at all any such bans that come up ultimately, we will have to plan something else. By diversing our equipment with other projects which are ongoing projects.
- Rohit Natrajan:** And you don't have any non-fund-based limit exposure to these projects by any chance?



*KNR Constructions Limited
February 15, 2022*

K. Venkata Rama Rao: All are funded. Only Vettam is what you are asking. Excepting Vettam all other projects are Kaleshwaram, Mallanna Sagar side which are mostly funded with the banks. So, Vettam is fully funded, this is almost 78% is funded.

Moderator: The next question is from the line of Parvez Akhtar Kazi from Edelweiss Securities.

Parvez Akhtar Kazi: Just one question from my side, with the share of irrigation orders in our order book falling, what is the kind of depreciation run rate that we can see going ahead?

K. Venkata Rama Rao: For this 9 months depreciation is around Rs. 94 crores. And for this quarter is around Rs. 35 crores. So, for this year it will be somewhere around 120-125 crores will be there. And further, there is not much irrigation projects. Only 25% is there. From irrigation only we are taking 3 years cycle. In others we are considering 7 years cycle. So, from next year definitely there may be some reduction in depreciation.

Parvez Akhtar Kazi: Is it possible that FY23, depreciation expenses could be lower than what we see in FY22?

K. Venkata Rama Rao: 2023, it might be but there is an addition in figures. Because last year we have not added much, we have added around Rs. 100 crores. But this year we are going to add around Rs. 180 crores and next year is also our target is around 150-160 crores. Because there is an addition in the depreciation so definitely depreciation, percentage-wise it may be the lower side but amount wise is definitely it will be the higher side only.

Moderator: Ladies and gentlemen, due to time constraints this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.

S. Vaikuntanathan: Thank you all for joining us on this call. Please reach out to our IR consultants, Strategic Growth Advisors or to us directly should you have any further queries. Stay safe.

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