



“KNR Constructions Limited
Q1 FY2019 Earnings Conference Call”

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MANAGEMENT:

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LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q1 FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan - Vice President Finance – KNR Constructions Limited. Thank you and over to Sir!

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

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

Delay in land acquisitions and utility shifting, environment clearance and permission for cutting of trees have been identified they are some of the main reasons for delay of highway projects. We are now focusing on these issues to expedite space of construction. Some states like Uttar Pradesh, Tamil Nadu, Maharashtra, Gujarat and Andhra Pradesh has shown significant improvement in clearing land issues. To improve pace of construction further, the road transport and highways has reviewed about 427 projects of NHAI and 311 projects of NHIDCL and the road transport ministry covering 20 states. 127 NHAI projects and 153 ministry projects, which were scheduled for completion by June 2019, are now being scheduled for completion by March 2019. In addition, there are about 100 projects that are going to be completed by December 2018. The construction project of NHAI for the year 2018–2019 has been revised upwards from 5,058 kilometer to 6,000 kilometers.

The Ministry has identified around 1,837 projects amounting to Rs.6.45 lakhs Crores having the length of 61,164 kilometer are ongoing for the development .. About 295 major projects including bridges and roads are likely to get completed by March 2019.

On the funding side, the transport minister will hold several meetings with head of major banks to sort out the issues related to the flow of funds. Recently, NHAI has received an unsecured loan of 25,000 Crores from State Bank of India for 10 years with three years moratorium on repayments. This is the largest amount of loan that have been sanctioned to NHAI in one stroke by an institution.

The total sanction amount of Rs.25,000 Crores is to be dispersed within March 31, 2019. Moreover, NHAI also assured a line of credit from LIC worth 8,000 Crores for financial year 2019. According to sources, LIC have also subscribed to Rs.4,200 Crores worth of bonds with 30 year maturity sold by NHAI. Further NHAI has invited bids for second bundle for National Highways under TOT model. The bundle consists of eight stretches of National Highways in the states of Rajasthan, Gujarat, Bihar and West Bengal. The total length of project is 586.552 kilometers. The bid due date is November 5, 2018. Concessionaires have to quote bid concession fee against NHAI's estimated initial concession value of Rs.5,362 Crores. All these funds raised through various sources apart budgetary allocation will help NHAI to easily fund future projects.

Now coming to KNRCL order book details: As you all know we have won five HAM project with total bid cost of Rs.5,611 Crores. We have also received sanction letters from banks to fund three HAM projects. And for the rest two, the sanction for one HAM project is on track and for the other HAM project of Karnataka State, concession agreement is yet to be signed and we will receive the same within the stipulated timeframe. Total debt funding will be approximately Rs.1,765 Crores. The total equity requirement of these HAM projects will be approximately Rs.440 Crores for which we are evaluating various options. Considering our strong balance sheet position, free cash generation and good project profile we are confident to finance the equity requirement for the projects.

The EPC value of these projects put together will be Rs.3,975 Crores. Apart from these five HAM projects our order book position as on June 30, 2018 is Rs.1,980 Crores consisting of road 78% and irrigation 22% and which is mainly from NHAI, which is 61% and state project is 39%, so the total EPC order book position is around Rs.5,955 Crores. To improve our execution outlook further we continue to bid for projects and expect to win projects worth approximately Rs.2,000 to Rs.2,500 Crores in the next 12 months.

Update on BOT project, as you are aware, our 100% owned Walayar-Vadakkancherry project has started 100% toll collection and the current average toll collection is Rs.15 lakhs to Rs.16 lakhs per day.

We are witnessing an improved toll collection on this stretch. The current toll collection is sufficient for principal repayment, interest payment and O&M payments. In respect of project in Bihar that is Muzaffarpur-Barauni project, we have received 100% PCOD and currently we are collecting average toll of around 15 lakhs per day based on 100% PCOD. In this project, we hold 51% stake and have invested Rs.89 Crores. The total toll collection has been improving on a consistent basis. Now, I request Mr. K. Venkatram Rao to present the results for the quarter ended June 30, 2018.

K. Venkatram Rao:

Good afternoon friends. I believe you have had an opportunity to see our results and the presentation that we have circulated and uploaded on our website. Now, I would present the results for the quarter ended June 30, 2018. Total revenue on the standalone basis is Rs.556.36

crores in Q1 FY2019 as against Rs.480.75 Crores during the same period in the last financial year, a growth of 16%.

Our standalone EBITDA for Q1 FY2019 has grown by 30% to Rs.109.86 Crores with a margin of 19.7%. The growth in EBITDA is led by unbilled quantity in projects such as Yedula, KP Sagar, Thiruvananthapuram and Madurai, which are substantially completed during the year and reduction of back-to-back subcontracting turnover, yielding to higher margins.

The standalone profit before tax grew by approximately 26% to Rs.84.42 Crores in Q1 FY2019 as compared to Rs.67.22 Crores in Q1 FY2018. The standalone profit after tax for Q1 FY2019 is Rs. 74 Crores with a margin of 13.3%.

On the balance sheet side, as on June 30, 2018, the debt on the standalone basis is Rs.247 Crores including the promoter loan of Rs.215 Crores. The networking capital days are 30 days. With this, we now open the floor for question and answers.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: Good afternoon Sir. Congratulations for a great set of results for Q1. My question is, what is our revenue guidance for FY2019 and FY2020?

K. Jalandhar Reddy: For FY2019, We were targeting our numbers to be more or less the same as last year's numbers but, as you are aware that now the major hurdle are of HAM projects, are land acquisition and if they start on time as expected then definitely we will try to touch the last year's figure, but as you know in the industry there are major problems with the land acquisition and also problems of financial closure, as the bankers give financial closure only if 80% of land is acquired. Earlier in EPC contracts even if 50% land was available we used to go ahead with the project assuming 100% land will be available in future and take the appointed date, but here in this case the bankers and even the equity partners are of the view that the appointed dates shall only be taken when we have the 80% land acquisition, so the problem here is if we delay taking up these projects because of the appointed date issues then we may lose our topline by 10% to 15%. Again it purely depends on assumptions and if there is a delay by two to three months by NHAI in giving us land then it may be a concern but however we are hopeful that at least two to three projects we will be starting on time and try to reach last year's mark at least.

Priyankar Biswas: I have a related question in this regards, since you harped on the point of land acquisition, can I have the land availability percentage for each of the HAM projects?

K. Jalandhar Reddy: Actually we do not have the exact data right now but however, I can roughly provide you with the same, Trichy to Kallagam almost 50% to 60% disbursement of the land payments have been done and the PD has requested 40 days to disburse the balance portions. He is quite confident that this project can be done on time. Second one Chidambaram to Meensurutti, that project has

some land problems and PD has already said that there will be a delay of one to one-and-a-half months from the scheduled time because this road is going entirely in the bypass and new land acquisition has to be done for this project; however, around 45% to 50% land payments is already disbursed. Then Chittoor to Mallavaram, which is the biggest project, is on schedule and by this month end 80% of land will be ready that is what PD says. Almost 60% to 70% the land payments are being issued in the first week and by this month end they are going to issue the entire payment. Here they are quite active and hopefully things will be done in time. Then Ramsanpalle to Mangalore, which is in the State of Telangana, it has got around 19% land which goes through the reserve forest where we have some forest issues. The forestry permissions are to be acquired, but Mr. Harish Rao who is the irrigation minister and who is also an active minister in the Telangana government has done a review on this project because he has got some villages, which he has adopted to develop are passing through this road, so his interest is to get this project done in time, and he is quite confident, even the collectors have promised to deliver this land at least by 40 to 45 days. These are all the statuses which have been committed by Project Directors, and we will try to achieve this according to the schedule what they have given, we are also joining hands with them to pursue these issues because it is very important for us that these project shall takeoff on time so that revenue don't drop in future.

Priyankar Biswas: What about Magadi to Somwarpet the K-Ship project?

K. Jalandhar Reddy: Magadi to Somwarpet the agreement is not yet concluded, we have signed the thing in the last month only, but due to change in government some of the sanctions are pending but we are expecting this to get over by this month end or next month first or second week.

Priyankar Biswas: Sir, just last question from my side, we have already done a revenue of Rs.560 Crores in Q1 and let us say in Q2 we would be doing close to Rs.350 odd Crores, so we will roughly cross Rs.900 Crores in H1, so even with the points you highlighted it does not seem that the revenue might decline by 15%, so does this guidance of 15% decline looks too conservative..

K. Jalandhar Reddy: Actually, the thing is most of the project, which are there on the NHAI front one in Madurai and other one is in Trivandrum are 85% completed so the revenues are coming to an end unless I start on the new project so I think the third quarter is not very lucrative. If I am able to start new work and push that it into proper shape then definitely I would commit to deliver what you are expecting from me. At least here we know the land problems are examined and according to my views plus or minus two months, the land acquisition will be done as there are no big issues in this, but plus or minus two months will cause lot of impact on our balance sheet that is what my worry is.

Priyankar Biswas: That is all from my side. I will join in queue if I have more questions.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

- Parikshit Kandpal:** Reddy Sir, congrats on good set of numbers. Which are the new orders you are bidding in the irrigation segment, if you can just highlight what is the bid pipeline there in the next two to three months?
- K. Jalandhar Reddy:** Actually, there have been certain projects in the bid pipeline. I think bids need to be submitted in a day's time in Telangana region only.
- Parikshit Kandpal:** How big are these projects?
- K. Jalandhar Reddy:** Actually, the ticket size is in the range of Rs.700 Crores to 2000 Crores, but again eligibility criteria is an issue, we are able to participate below Rs.2,000 Crores, I think three, four tenders we are able to participate and we are awaiting results.
- Parikshit Kandpal:** The total quantum of orders will be Rs.10,000 Crores to Rs.12,000 Crores all put together?
- K. Jalandhar Reddy:** I will email you this as I have not calculated the total.
- Parikshit Kandpal:** How much of work you are targeting in this segment, will you be happy with one contract of Rs.700 to 800 Crores?
- K. Jalandhar Reddy:** Definitely, I think hopefully we shall be able to get one or two, but we are especially focusing on one but lets see what are the results.
- Parikshit Kandpal:** How big is this one?
- K. Jalandhar Reddy:** Roughly, I think minimum is Rs.700 Crores and maximum is Rs.1369 Crores.
- Parikshit Kandpal:** Sir, if you get one of these packages can you at least execute these projects as you get a full second half of FY19, so Rs.150 to 200 Crores you can make up from these?
- K. Jalandhar Reddy:** Actually I am not assuming anything on the new orders which we are bagging while I gave the statement. Also irrigation projects are all EPC contracts when you sign the contract you can start the work and nobody is going to stop you and these are instant, earthwork, I do not need to mobilize much, I will take hardly two months to mobilize and get into revenues.
- Parikshit Kandpal:** So there is enough visibility that over next couple of months these orders will get awarded and there is a chance that these will start contributing for second half if you win these?
- K. Jalandhar Reddy:** Yes that is right. There are possibilities.
- Parikshit Kandpal:** Secondly on the flyovers, earlier you had highlighted that there are lot of flyover projects and toll projects coming up in Tamil Nadu on the EPC basis, so any update what is the pipeline there and when are the expected timelines?

K. Jalandhar Reddy: The tenders have not yet come on the board. I think in couple of months they should come. They are on the estimate stage, as far as we know.

Parikshit Kandpal: And this will be like EPC and again large ticket size Rs.700 to 1000 Crores -?

K. Jalandhar Reddy: Yes. Actually, the bridge works or flyover are bit below Rs.500 Crores. Generally the ticket size range from 200 Crores to 500 Crores. The ticket size does not matter to us as we have other divisions which will contribute to the revenues.

Parikshit Kandpal: Lastly on the margins front this quarter we have clocked close to 19%, so for the full year how are we placed, are we going to increase our guidance from 15% to 16% to now 17% to 18% for the rest of the year?

K. Jalandhar Reddy: EBITDA margins, it should be quite good because being in HAM we have already made the guidelines and we are very well in line with the earlier projections.

Parikshit Kandpal: 17% to 20% is what we can do?

K. Jalandhar Reddy: I cannot say that, but definitely we will touch the 14% to 15%.

Parikshit Kandpal: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: My question is when we look at from Q1 FY2018 till Q1 FY2019 our margin have been in the range of 18% to 20% now what you explained that there is always some project getting completed and the reversal keeps on happening against the provision which you made and there could be one or two other reasons related to the efficiency part, so this is something that is not your core margins there could be some reversal or provision against the project cost, which obviously has come from your efforts, but still not looked your core margin that is due to which profitability looks higher, so is it possible to guide us that where you are going to stop showing this reversal and when can we see a normalized margins or let us say guidance which you used to give earlier as well 14% to 15% before Q1 FY2018?

K. Jalandhar Reddy: The budget got adjusted only on the account of the last three years. Whatever works are undertaken usually they are two years old or one-and-a-half years old and some are three years old may be they would have completed or near completion so in these things what happens is during this times the inputs rates, of the steel and other components the prices were very less and were in control, so there the margins were more than what was estimated, but if the input costs goes up then definitely margins will be thinner, For example if you take the diesel part, the high speed diesel the component is multiplied with 10% escalation but to be practical it is 13% to 14%, so 4% on the raise of the cost is not passed on by NHAI so what happens but here if the

prices increase more than 10% then things will be out of control. For example if you take steel and cement they are passed on with the WPI multiples which does not reflect the true figures here sometimes if there is Rs.100 raise in cement bag we would get only Rs.40 raise in the escalation, so if it goes in the negative way same impact is there on the margins, so somehow you try to understand that these estimates vary depending on the input materials which are coming in.

Nitin Arora: Absolutely taken your point Sir, but look at the three cycles where the company has gone through here the problem is that we run the company by being so conservative in nature we have never seen the other way, we have always seen the reversal way because the way we do projects we take higher margin, so my question was that when we can start seeing the core margins rather than these reversals so that it becomes easy to forecast nothing else?

K. Jalandhar Reddy: It is not that when we can see that cycle because nobody can tell anything what is happening to these major components and we are not able to judge the prices of these input materials if we are able to judge we will definitely give a very consistent and better guidance than any other time, but I would like to answer your question in another way, so recently we bagged new HAM projects and two months ago there was a revision in the bitumen prices which jumped up by Rs.4,000 per tonne which we could hardly imagine and was totally a shock news for us. So its better to be conservative and rather to be liberal because if it does not meet the street estimate than you would not be ready to hear my voice next time.

Nitin Arora: My second question is, when we talk about the 10% to 15% decline in revenues for the next year in that how much of the HAM execution you have taken or you have assumed or there is no HAM in this 10% to 15% decline that is what I wanted to confirm?

K. Jalandhar Reddy: Actually, we have considered around Rs.400 Crores towards the HAM execution, from all four HAM projects. The main thing is that here the appointed date itself is can be plus or minus two months. But in any case, we are putting our best efforts to towards achieving the real targets.

Nitin Arora: So in the existing order back log of Rs.1,980 Crores, Rs.1,400 Crores is somewhat you are expecting to execute this year.

K. Jalandhar Reddy: Yes.

Nitin Arora: Sir, in terms of your depreciation though you last year highlighted to us that there was a larger irrigation project due to which the depreciation was increasing quarter by quarter, so in this quarter the depreciation amount is at Rs.36 Crores is this something normalized at this run rate or eventually it will again move towards Rs.40 Crores to Rs.42 Crores run rate?

K. Venkatram Rao: It will be in the same range for the next two quarters because the irrigation projects we are expecting to complete by this December, so you can expect that this depreciation will be there till Q3 and after that it will be in the normalized range.

Nitin Arora: So, can we assume that the normalized range would be between Rs.24 Crores or Rs.23 Crores per quarter

K. Venkatram Rao : It may be between Rs.25 Crores and Rs.30 Crores .

Nitin Arora: Sir, lastly on your deal with the partner on the HAM projects, given the scenario of the interest rate at this point in time though you have said that you signed the MoU with them, has anything change from their perspective because one point you highlighted that they also want to take an appointed date once the land becomes 80% available, are there some other conditions as well that may change if let us say the interest rate increases that becomes lock in when the deal is done?

S. Vaikuntanathan: No, it is not like that, the due diligence has already been completed and on both sides the documents are being vetted by lawyers and we have also had one or two sittings. We have now come to the fag end and the fact that 80% land to be available is because this is one of the understanding between the parties so that we can move forward without any problem, so I think we want to synchronize everything nearer to the financial closure.

Nitin Arora: Thank you very much and all the best.

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

Shravan Shah: Thank you and congratulations on good set of numbers. Sir, most of the important questions have been answered I just wanted an order book breakup project wise and also the revenue because in the in the presentation the revenue seems to be on the lower side if I just compare quarter-on-quarter order book number, so if you can help me with the revenue and order book numbers of the remaining projects, which are not in presentation?

K. Venkatram Rao : Actually, for this quarter maximum revenue has come from our KP Sagar project. Of the total revenue KP Sagar contributed Rs.171 Crores. In Arunachal Pradesh project Pasighat contributed Rs.75 Crores of the revenue because we have billed that on the revised estimate which has been approved from the client. We got Rs.54 Crores in the Madurai project and Rs.50 Crores in the Yedula project and Rs.45 Crores in the Pollachi project. These are the major revenue contributors during this quarter and in respect of our balance order book I think you are basically asking about EPC 1, 2, 6?

Shravan Shah: Yes.

K. Venkatram Rao : That EPC 1, the project is over actually. EPC 1 and EPC 2 is Rs.57 Crores and EPC 6 is just Rs.8 Crores.

Shravan Shah: And what about KP Sagar and Yedula outstanding book?

K. Venkatram Rao : KP Sagar outstanding is Rs. 265 Crores and Yedula is just Rs.10 Crores.

- Shravan Shah:** There is one more irrigation project because the total irrigation outstanding order book is slightly on the higher side?
- K. Venkatram Rao :** Yes, one irrigation project which was a JV with KNR, PSK, GVR that was Rs.131 Crores.
- Shravan Shah:** How much order book is outstanding in Madurai project?
- K. Venkatram Rao :** Madurai is Rs. 67 Crores.
- Shravan Shah:** And what about Arcot Villupuram?
- K. Venkatram Rao :** Arcot Villupuram is Rs. 57 Crores.
- Shravan Shah:** That is it from side and all the best.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Good afternoon Sir. Thanks for taking my question and congratulation on great set of numbers. Sir, my question was basically on the revenue guidance for the full year, so as you are foreseeing 10% decline and right now the order book that we have excluding the HAM projects is Rs.1980 Crores to be precise so what is the timeframe for the execution of this order book?
- K. Venkatram Rao :** Timeframe for execution for few of these orders actually we have got another one-and-a-half year time and Projects like Madurai, Trivandrum had issues of land, some new items have been added on account of change of scope and those items are being executed thereby costing around Rs.300 odd Crores. So these are all under execution so that is why the projects are not completed otherwise we have one-and-a-half year's time for the existing few orders.
- Vibhor Singhal:** Sir, it is safe to assume that this entire Rs. 2,000 Crores of order book will be completed by December next year?
- K. Venkatram Rao :** Of course. Except for the Hubli project, rest all are to be completed by next December.
- Vibhor Singhal:** Fair enough and you are looking at around a revenue of Rs.400 Crores from the HAM projects this year in FY2019?
- K. Jalandhar Reddy:** Yes.
- Vibhor Singhal:** And would it be safe to assume that we anyway have to achieve the financial closure for all four NHAI project by October?
- K. Jalandhar Reddy:** Yes.

Vibhor Singhal: Because six months is the timeframe for the financial closure, so by October we will be able to do that so post that in Q3 or in Q4 we are expecting around Rs.400 Crores of revenue from the HAM projects?

K. Jalandhar Reddy: Yes. but if we can do more that will be good, let's see.

Vibhor Singhal: Of course definitely, what I am trying to say is that if we are looking at around Rs.300 Crores to 400 Crores, of revenue next quarter, of which we are expecting Rs.400 Crores of revenue from HAM projects this actually means that we are assuming that we are not generating any revenue from any other project in the last two quarters apart from the HAM projects. So its kind of a difficult to put math together, but I understand that you are probably being on the conservative side in terms of land acquisition problems which we are facing right now, so its better be on that side. I just wanted your outlook on the NHAI pipeline, I am not too sure if you answered that before and of course we have seen that we had a very good order activity in March and April months since then it has been kind of flat, how do you foresee order activity in the next six months with elections coming up, do you foresee another round of bidding of HAM projects coming up or EPC projects coming up in the next two, three months or do you think it might still remain subdued until the election takes place?

K. Jalandhar Reddy: Again, this is another assumption, but NHAI will come up with another round of tenders before election that is what the news is and there are many tenders on the board but they are getting postponed because of the land acquisition problem.

Vibhor Singhal: Right, is this the current activity in NHAI?

K. Jalandhar Reddy: Projects which will be awarded, we will see that their financial closure and everything is done then only we will go for the tendering, that's what the chairman has said but the ministry is thinking that they can do more tenders before the election, and even I am hoping for that.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Thanks for taking my question. Just one question, I wanted to know in last concall you had mentioned that you are bringing in a equity partner for your HAM projects and within one month we will hear some announcements on that just wanted to check what is the status on that and what are controls on the deal now?

K. Jalandhar Reddy: Actually, legal session is going on between both the firms, I think once that is done some conclusion are to happen on the final closing of the terms, I think by this month or latest by second week of next month will be able to come out with the news.

Amber Singhania: By basically September end we will be able to hear something on the equity realization?

- K. Jalandhar Reddy:** Yes.
- Amber Singhania:** Fine. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Sir, any claims that we received from NHAI, which you were talking in the last concall that some claim we will receive in next few months?
- K. Venkatram Rao :** We told about award. We have got an award in some of the projects, but we have not received it yet. Normally, NHAI will prefer to go to high court order.
- Ravi Naredi:** Still the matter is under litigation not finally outcome?
- K. Venkatram Rao :** Yes, the final outcome is yet to come, it is only arbitration award that we have won.
- Ravi Naredi:** Any plan to raise equity with right issue of the existing shareholder?
- K. Jalandhar Reddy:** Right now, we have not give any thoughts to that maybe if we have anything coming up in the next year, we would like to inform you.
- Ravi Naredi:** Any progress in selling BOT projects? Or are we still waiting for some more time for the revenues to come up and then sell?
- K. Jalandhar Reddy:** Actually, only Walayar project the revenues are becoming better in the last few days, I think within one year to two years' time we will be able to completely close that project that is what our gut feeling.
- Ravi Naredi:** One year to two years?
- K. Jalandhar Reddy:** Yes, because the KMC portion is still pending, at least from IVRCL side it is finished so we grown in revenues. Once the tunnel work which is pending is completed then we expect the traffic to go up and toll revenues are likely to go up by around Rs. 2 Lakhs. So once that is done I think closely we will come to the proper understanding.
- Ravi Naredi:** Thank you.
- Moderator:** Thank you. Next question is from the line of Faisal Hawa from HG Hawa. Please go ahead.
- Faisal Hawa:** Congratulations on a good set of number again. I think the old trend continues that we will get better set of numbers than under promise, so my question is how are we approaching HAM, we see a few players it is not handled properly so we have big cash flow track you are going on putting in equity and some part of your equity of your final margin will always be trapped in the

equity, so how far have we reached with the Investor deal to put in half the equity that is one? And second on the pricing end an increase in margin who account for this money, which will be stuck in HAM projects almost forever, and one more question is do you feel that competitive intensity in this coming HAM projects may decrease because most people are already grasping with so many financial closure to be done and taken on so many orders?

K. Jalandhar Reddy: Now this HAM project, there is no affect as far as the equity infusion is concerned because now the 80% of land is a must for the appointed day. Once the 80% of the land is there only then you will start infusing your funds and even bankers are also nowadays stipulating that. So when 80% of the land is fully available then you will be rest assured that remaining 20% will come definitely once the work is going on. So there is no risk of Equity getting blocked, in fact when you start doing the work the EPC portion also the NHAI will start giving the grand portion, so HAM is one of the safe model where there is no fund blockage as far as the developer is concerned and same way the bankers are also protected and it has been proved to be a good model in the recent times. Then yes there are good option for the developer to quote good price for their EPC margin because now the competition is also as you rightly said the financial closure process is happening for the people who are having good financial background. The companies having a good financial background, those people will only go for bidding.

Faisal Hawa: How are we doing on the equity partnership with the investor?

S. Vaikuntanathan: See, our balance sheet is very strong and as you can see our net working capital days also have come down from 40 to 30 days that means the churning of our working capital is happening very fast. In fact we have got deposits in mutual fund to the extent of more than Rs.175 Crores and these all will help us in sourcing the equity from our own end. In addition to that as we explained earlier, we do not want to hold these HAM projects on our Balance Sheet because our intention is to do a deferred EPC and then go on churning the funds so that is why we have identified an equity partner and then the negotiations are going on, the legal documents are being exchanged. This will help us in offloading these HAM Projects to the equity partner after the project is executed.

Faisal Hawa: So what is the timeline for this legal due diligence?

S. Vaikuntanathan: Legal due diligence is completed, but the legal documents are being vetted by two lawyers and lot of progress has already happened, but we already planned that we should synchronize this with our financial closures so it should all be completed by third /4th week of September. Once these things will become very clear both Boards have to approve then we will announce it in the press.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.

Aditya: Just a couple of questions, one is what would be the tax rate for FY2019 and FY2020 and towards what would be the capex guidance for FY2019?

- K. Venkatram Rao :** Actually, I think you have seen that in Q1 the effective tax rate is coming to around 12%, so basically the reason is that lot of the projects we have got after April 1, 2017 we are not eligible to get 80IA benefit and we expect that by year end it may be range of 15% and 18% for FY2019 and for FY2020 it may be around 20% to 25%, as far as capex is concerned we expect that this year we may do somewhere between Rs.100 Crores to Rs.120 Crores.
- Aditya:** And what was that in Q1?
- K. Venkatram Rao :** Q1 was only Rs.22 Crores.
- Aditya:** And what would it be in FY2020 approximately?
- K. Venkatram Rao :** FY2020 definitely it will depends upon when we are getting new projects already for the four HAM projects we have worked out because lot of the existing projects are completing so that is why we are moving our existing capex to that side and we are procuring some more capex.
- Aditya:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Umesh Jain from UBM Capital. Please go ahead.
- Umesh Jain:** Good afternoon Sir. Thank you for providing this opportunity to ask question. My first question is in relation to the tax rate of 80IA allowance, I believe that is the only in respect of old projects prior to March 2017 where we might have executed the work as contractor for our SPV is that correct?
- K. Venkatram Rao :** Even for our EPC projects, which we have already entered an agreement with the government and we have taken the appointed date before April 1, 2017 on that project we will get 80IA.
- Umesh Jain:** But in those cases are we qualifying as the developer or we are a contractor?
- K. Venkatram Rao :** No, we are contractor because it has been changed. We have got already awards from the Appellate Tribunal, as a contractor also we are eligible to get.
- Umesh Jain:** How long do we expect this to continue, for existing contracts one or two years?
- K. Venkatram Rao :** Out of Rs.2,000 Crores of order book around Rs.450 to 500 Crores of order book is is non-80IA otherwise other things are legal for 80IA.
- Umesh Jain:** Great. My second question is on this sanction letter where we have received three projects is there a range that you can indicate for the interest rate on those and what is your view on the banking or financial closure per se because as an industry I think everyone is facing that challenge?
- S. Vaikuntanathan:** The rates are quite attractive, we will come back and tell you when the documents are signed.

- Umesh Jain:** No issue. Thanks a lot and my last question is a sort of suggestion if you can just under this new IFRS guidance, I think, there is some sensitivity disclosures to be given and as you mentioned in call regarding the slide sensitivity of material bitumen and all if you could just include that in your annual report that would be helpful for an investor like us to analyze the sensitivity of those material price risk on the profitability of the company.
- K. Venkatram Rao :** We will mention, but that is basically related to interest rate risk because even if material item will be there, but something will covered under the contract, but it is not 100% which is totally not covered in the contracts like interest rate so that has to be mandatory we have to mention so that we are mentioning for material aspect definitely we will have separate discussion on this and we can clarify you.
- Umesh Jain:** Because a few developers already started giving that so it would be helpful is my suggestion.
- S. Vaikuntanathan:** Whatever way we have to disclose, we will disclose in consultation with the auditors we will do it.
- Umesh Jain:** That is great Sir. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.
- Ankita Shah:** Sir, my question was what would be the execution expectation for FY2020?
- K. Jalandhar Reddy:** FY2020 all these orders will in full swing, so somewhere around Rs.2500 crores plus we are expecting.
- Ankita Shah:** Rs.2500 Crores plus kind of execution, perfect and Sir, then in those terms only how would our EBITDA margins look like for FY2019 and FY2020 both?
- K. Jalandhar Reddy:** It would be around 13% to 14%, depending upon the input rates for the coming year which we are not very sure off.
- Ankita Shah:** Despite one strong first quarter?
- K. Jalandhar Reddy:** Madam the main issue is that in one month there was Rs.4000 hike in bitumen prices which was a shock to us, if these shocks continue to come it will not be easy to predict. I have always mentioned that I will be delivering 14% and I have never delivered less than 14%, I would always say that I would do better than this.
- Ankita Shah:** In fact you should do better.
- K. Jalandhar Reddy:** Anything is acceptable to anyone that is the main issue. My guideline is that we should not go below this.

- Ankita Shah:** Sure, fine, got it. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Abigail Fernandes from Crisil. Please go ahead.
- Abigail Fernandes:** Sir, congrats on the great numbers. I just wanted to know what is the status on the BOT annuity project that is KNR Patel Infrastructure Private Limited and Patel KNR Heavy Infrastructure Limited?
- K. Jalandhar Reddy:** Yes, actually because of the claims the share purchase agreement could not have a proper conclusion, so that is why we have deferred the selling process and now we are waiting. There was an award from the arbitration tribunal for the KNR Patel Infrastructure Private Limited of around Rs.99 Crores, so we are expecting another one and if we sell the projects we need a clear mechanism on the Claims which is a challenge that we are facing.
- Abigail Fernandes:** So, now it will remain on our books?
- K. Jalandhar Reddy:** Yes, it will be remaining on our books because we are getting good claims on that and unnecessarily if we are selling the project and tomorrow if there is some dilemma on the receivables from the claims then we will have issues, so that is why we have halted his process as of now, but actually there are few base are already approached us we told them if you can give a very nice and acceptable exit route to get out nice claims then I am ready to sell also.
- Abigail Fernandes:** I mean that is all that I have to ask. Thank you.
- Moderator:** Thank you. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Just on the claims you said Rs. 99 Crores is what has been awarded on you favour so what is the second claim now on this project?
- K. Venkatram Rao:** We have got in one SPV Rs.99 Crores and second SPV we are expecting by March that we will get the award.
- Parikshit Kandpal:** How much is that?
- K. Venkatram Rao :** We launched a claim of Rs.127 Crores.
- Parikshit Kandpal:** And what is the claim amount on the Kerala BOT?
- K. Jalandhar Reddy:** Rs.285 Crores.
- Parikshit Kandpal:** Thank you.

- Moderator:** Thank you Mr. Shah. Next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Thank you for the opportunity once again. Sir, in terms of the irrigation you have mentioned that you are looking to bid three tenders, but in pure road projects how much overall infra are we expecting and that to are we expecting anything from HAM this year?
- K. Jalandhar Reddy:** Actually Sir, this year I think whatever the existing order book is getting exhausted this year we would like to add back the same in this year, so we are targeting about Rs.2000 to 2500 Crores to add up this year itself. As you know the elections are to held and we do not know what sort government would come and then what sort of situation we would have, immediately after the government has taken charge then would they call for tenders or there will be some gap and all that. So in order to address all these issues we are trying to get another Rs.2000 to Rs.2500 Crores.
- Shravan Shah:** So in this are we expecting any HAM?
- K. Jalandhar Reddy:** Yes, obviously because nowadays we cannot take EPC because very aggressive bidding is going on for EPC so that is the why we are shifted towards HAM.
- Shravan Shah:** That is it from my side and all the best.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Thank you Sir. Just a bookkeeping question what is the current debt at the standalone level and what do we target for the full year?
- K. Venkatram Rao:** Actually in standalone it is Rs.247 Crores including Rs.214 crores debt of the promoters, so external debt is Rs.33 Crores.
- Vibhor Singhal:** And target for the full year?
- K. Venkatram Rao:** It may go up by Rs.50 to 70 Crores.
- Vibhor Singhal:** Thank you so much and wish you all the best.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last quarter. I now hand the conference over to the management for closing comments.
- K. Jalandhar Reddy:** Thank you everyone for your participation in our earnings call. In case of other queries you may get in touch with Strategy Growth Advisors, our Investor Relations, please feel free to get in touch with us. Thank you very much.



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