



“KNR Constructions Limited
Q1 FY2020 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Good day ladies and gentlemen, and a very warm welcome to KNR Constructions Limited Q1 FY2020 Earnings Conference Call. This conference call may contain certain 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 the guarantees 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. S. Vaikuntanathan, Vice President-Finance, KNR Constructions Limited. Thank you and over to Sir!

S. Vaikuntanathan: Good afternoon friends. I welcome you all on our earnings call for quarter ended June 30, 2019. Along with me I have, Mr. K. Jalandhar Reddy, Executive Director, Mr. K. Venkatram Rao, General Manager (Finance & Accounts) and Strategic Growth Advisors, our Investor Relations Advisors. I will start with a brief on the key updates on the industry then we will discuss on the company’s performance.

The roads and highways sector has witnessed a muted performance for the first quarter of financial year 2019-2020. The awarding activity has significantly gone down as issues related to land acquisition and funding continues to exist. As the government has been recently re-appointed for a new term, we expect the awarding activity to revive in the second half of the year.

The National Highway Authority of India has announced its ambitions of awarding 6,000 km of highway projects in the current fiscal year. It is expected that the majority of the projects would be awarded through hybrid annuity model (HAM) in 2019-20 while remaining would be awarded under EPC mode. The government has already short-listed around 25,000 km of highways to be awarded over the next three years under Bharatmala phase 1.

After successful implementation of Bharatmala phase 1, the government is all set to launch Bharatmala 2 under which the government has proposed to build nearly 3,000 km of express ways including Varanasi-Ranchi-Kolkata, Indoor-Mumbai, Bengaluru-Pune and Chennai-Trichy projects. Most of these projects would be Greenfield projects. The preparations of DPR have already been initiated and are expected to be ready shortly so that the bidding activities can be started as soon as Bharatmala phase 1 project are bid out completely.

The authority has also set its highest construction target ever for 2019-20. NHAI has build 3,320 km of highways in 2018-2019 and hopes to construct 4,500 km in 2019-20.

On the funding side, during union budget for financial year 2020, the budgetary allocation towards development of roads and highways have been increased to Rs. 83,000 Crores.

Additionally, NHAI will be soon coming out with the third auction under TOT model, which will have road projects of around 550 km. The line of credit extended by LIC of Rs. 25,000 Crores is another source of funding projects. Moreover, the NHAI has also signed an MOU with National Investment Infrastructure Fund (NIIF) recently to fund large Greenfield projects. All these initiatives will help the authority to award a larger number of projects going ahead.

Now coming to the company operations, we have a portfolio of 10 projects of which 6 are HAM projects, two are BOT toll and two BOT annuity projects. We have already received appointed dates for three HAM projects and the execution of these projects are progressing ahead of the schedule. We have completed approximately 19% and 13% of Chittoor to Mallavaram and Ramsanpalle to Mangalore projects respectively as of June 30, 2019. The execution of Trichy to Kalagram projects has also started. The appointed date of Meensuruti to Chidambaram is still pending. With regard to KSHIP HAM project we have already submitted the financial closure documents to the authority. We expect to receive the appointed day for this by the end of next month. For our sixth HAM project worth Rs. 920 Crores (BPC) in the state of Tamil Nadu, we are yet to sign the concession agreement post which we will be tying up for debt for financial closure. We have already invested Rs. 183.77 Crores as equity across all our HAM projects. We have given all details of HAM projects on slide #22 of our investor presentation.

We are very pleased to inform you that we have signed a share purchase agreement with Cube Highways & Infrastructure III Pte. Ltd. for our fourth HAM project that is Ramsanpalle to Mangalore today. We already have these agreements in place for other three HAM projects namely Trichy to Kalagram, Meensuruti to Chidambaram and Chittoor to Mallavaram with Cube Highways for divestment of our stake. As per the agreement, we will completely sell these four projects after COD plus two years. We expect an aggregate investment of Rs. 198.5 Crores in these four projects, which equals to 51% of project equity requirement. Against our investment of Rs. 198.5 Crores, we will receive approximately Rs. 358.00 Crores as per the share purchase agreement. The final amount may undergo some changes at the time of COD. Cube will invest 49% of Equity after 90% of ROW is achieved during the construction in each of these four projects.

Update on BOT projects, Our 100% owned Walayar-Vadakkancherry BOT toll project is witnessing improved average toll collection of Rs. 17 lakhs per day. We are in the process of evaluating various options to monetize this project within this financial year. Our Bihar project, Muzaffarpur-Barauni project has also improved on a consistent basis and we are collecting an average toll of Rs.21 lakhs per day currently.

Coming to EPC projects, the company has received a work order of Rs. 847.34 Crores from Navayuga Engineering Company Limited on a back-to-back subcontracting basis for the balance work of Palamuru-Rangareddy lift irrigation scheme package #10 in the state of Telangana. We also expect another irrigation order of Rs. 850 Crores to be received shortly in the state of Telangana. We have a total order book of Rs. 4,634 Crores out of which the EPC components of three HAM projects for which appointed day has been received is Rs. 2,516 Crores, which is

54.3%. Out of the remaining order book, central government projects contributes Rs. 633 Crores that is 13.7% and state government projects contribute Rs. 1,485 Crores that is 32%. We are not affected by any project cancellations in Andhra Pradesh as all our projects in the state are HAM projects.

In terms of order book breakup, roads constitute Rs. 3,661 Crores that is 79% of total order book and irrigation projects are Rs. 973 Crores that is 21% of total order book. We expect a large number of projects to bid out in the current financial year and we are planning an order inflow of approximately Rs. 1,500 Crores in the remaining part of this financial year. Now, I request Mr. K. Venkatrama Rao, our GM to present the results for the quarter ended June 30, 2019.

K. Venkatrama Rao: Thank you, Sir. I hope you have gone through our results and the presentation that we have circulated and uploaded in our website. I would now present the results for the quarter ended June 30, 2019. On standalone basis the total revenue stood at Rs. 464.6 Crores in Q1 FY20 as against Rs. 556.4 Crores during the same period in the last financial year. The revenue was impacted mainly due to a delay in receiving appointed date from NHAI for the HAM projects. From Q2 FY20, the execution phase for our three HAM projects in which we have received appointed date has picked from July onwards. Our EBITDA for Q1 FY20 stood at Rs. 90 Crores with a margin of 19.4%. Profit before tax stood at Rs. 58.9 Crores in Q1 FY20 as compared to Rs. 84.4 Crores in Q1 FY19.

Profit after tax for Q1 FY20 is Rs. 47.7 Crores with a margin of 10.3%. The net margin growth has been lower on year-to-year basis primarily due to higher tax provision as the projects which enjoyed 80IA benefit are getting completed in the current year and higher depreciation in irrigation project as per the management estimate. On the balance sheet side as on June 30, 2019, the debt on standalone basis is Rs. 342 Crores including promoter loan of Rs.205 Crores and the net working capital is 42 days.

Moving on to the consolidated performance for the quarter ended June 30, 2019, the total Revenue stood at Rs. 530.7 Crores in Q1 FY20 as against Rs. 591.9 Crores during the same period in the last financial year. EBITDA for Q1 FY20 stood at Rs. 115.8 Crores as compared to Rs. 135.2 Crores in Q1 FY19. EBITDA margin for Q1 FY20 stood at 21.8% as against 22.8% in the Q1 FY19. Profit before tax stood at Rs. 55.7 Crores in Q1 FY20 as compared to Rs. 82.9 Crores in Q1 FY19. Profit after tax for Q1 FY20 is Rs. 44.5 Crores with a margin of 8.4%. On the balance sheet side as of June 30, 2019, the debt on consolidated basis is Rs. 800 Crores including promoter loan of Rs. 205 Crores. The debt to the equity stand at 0.19 times. With this we now open the floor for question and answer.

Moderator: Thank you very much Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mayank Goyal from SBICAP Securities Ltd. Please go ahead.

- Mayank Goyal:** Good afternoon, Sir. Many thanks for the opportunity and congrats on the deal of your fourth HAM. Couple of questions, first one, is Trichy to Kalagarm HAM facing any issues as it got back dated appointed date of March 1, 2019 and the other one Mangloor HAM got May 18, 2019 yet execution in Mangalore is 46 Crores and Trichy did just 23 Crores?
- S. Vaikuntanathan:** Trichy appointed date has been received essentially in later date, so till the appointed date is received any billing cannot be officially done so that is why at the fag end of June quarter the work execution has picked up. We expect that the billing will accrue into the second quarter where most of the turnover will be booked in the coming quarter.
- Mayank Goyal:** So, is it that some revenue on construction on these two HAM has not been booked in this quarter because of that billing issue and could be bunched up collectively in second quarter?
- K. Venkatram Rao:** Yes, correct because Trichy, we received appointed date in June effective from March 1, 2019, due to this reason we are not able to book all the expenses in that quarter, but on progressive basis we will ensure that all the expenses will be booked.
- Mayank Goyal:** Sir, specifically for Trichy to Kalagram and Mangloor, what will be rough idea on the quantum of amount of work that you have done, but you have not built, which can get bunched up in second quarter?
- K. Venkatram Rao:** Around Rs. 40 Crores to 50 Crores.
- Mayank Goyal:** Sir, which stage is Meensuruti to Chidambaram HAM in, because it received its FC in September 2018, but no appointed date has been declared yet, so what is land position and when can we expect the appointed date for this project?
- S. Vaikuntanathan:** There is problem on the site in some of the areas and villages are demanding higher compensation and not allowing the handing over of the site, which may be around 6 to 7 km. Unless this is given the 80% of right way cannot be completed and even if that is removed, we have to go in a circuitous way where the cost will go up. They have called for a meeting before the end of this month to discuss this. we also explained the clear position to the NHAI authorities from Delhi and now they have to take a call on that. As you rightly said the time has passed so we are in an advantages position and we do not want to take a small project in a hurry where the cost will go up. We may have to discuss all these issue in the coming meeting and so the decision as on date is still pending.
- Mayank Goyal:** Sir, roughly what will be the land position in this project?
- S. Vaikuntanathan:** Approximately around 63% to 64%.

- Mayank Goyal:** Just wanted to understand whether there are any slightest of the chances of the project getting terminated because we have seen one or two contractors reporting termination of their existing HAM projects?
- K. Venkatram Rao:** See already one year is over, more than one year has been completed and we are in an advantages portion. Yes, if at all we continue then they have to agree for the penalty, which they have to pay and the cost escalation for this also has to be born by them. If we take the project without appropriate land then tomorrow our profitability will get affected, so this is a very important element. Additionally, the project is also very small project of Rs. 480 Crores, so all the discussions will happen with the NHAI when they come in for meeting before the end of this month and a call will be taken.
- Mayank Goyal:** Lastly one thing on the order inflows, you have guided for further orders of Rs. 1,500 Crores for the balance part of the year, so does this Rs. 1,500 Crores include the new 850 Crores irrigation order, which you are saying or that is separate?
- S. Vaikuntanathan:** We are also including the new irrigation project, which we are going to get because we are still expecting the LOI of this project. Even in some HAM projects where we are bidding, one project of Rs. 1,000 to 1,500 crores may be planned to take up. We are expecting number of HAM projects to come which are being planning to bid by September-October end. So if there is a project of say Rs. 1,000 to 1,500 Crores ,we will take up that project .
- Mayank Goyal:** Understood, Sir. Thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Shriram Kumar from Spark Capital. Please go ahead.
- Shriram Kumar:** Thanks of the opportunity, Sir. In terms of land availability status for each of this projects can you give that, each of the projects in 3H land availability?
- K. Venkatram Rao:** Yes, for our Chittoor to Mallavaram project 94% land is there as of now. Ramsanpalle to Mangalore around 80% land is there and from Trichy to Kalagam also around 83% land is there.
- Shriram Kumar:** But, just now Sir said that it is around 63% land is there?
- K. Venkatram Rao:** That is Meensuruti to Chidambaram.
- Shriram Kumar:** Sorry and for the other projects, Sir?
- S. Vaikuntanathan:** There is one project, which is Oddanchatram to Madathukulam in which the concession agreement is yet to be signed. The NHAI has given the 3D notice. So we hope in another two months period the concession agreement will be signed, so then we will be knowing the complete position on that date.

- Shriram Kumar:** What about the KSHIP project, Sir?
- S. Vaikuntanathan:** KSHIP projects is 63% to 64% land is available in the next two months we are hopeful of getting the balance up to 80%.
- Shriram Kumar:** Sir, in the opening statement you mentioned that Cube will invest only when we have 90% of ROW, so theoretically will there be a case where we will invest almost 100% of the project and then we will get the land later on and after than the Cube will invest, is there is a chance for that?
- K. Venkatram Rao:** That position may not occur for us because we have got appointed date recently for all the projects and we have put our portion of the equity. Further, we will start getting NHAI grant as well as the debt so further equity requirement may come after 9 to 10 months from now onwards. So in that period definitely we will cross 90% of land in each of the project.
- Shriram Kumar:** Sir, all the first three project deals with Cube that has been approved by NHAI, Sir?
- S. Vaikuntanathan:** We have already signed the Share Purchase Agreement, we have circulated to the exchanges, now the next stage is that we will be signing the SHA. After signing the SHA then we will approach both lender and NHAI that is the planning we have worked.
- Shriram Kumar:** Sir, how much time approximately it will take for approval from NHAI, any idea?
- K. Venkatram Rao:** See, now the project is just now started executing, even if we get it in the next two to three months period, I think it is okay for us.
- Shriram Kumar:** Sure, Sir. I will join back the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Sir, what was the contribution of irrigation revenue in this quarter?
- K. Venkatram Rao:** It is around 10%.
- Parikshit Kandpal:** But still we have 19% EBITDA margin, so despite very low contribution from irrigation, so what would explain that, Sir?
- K. Venkatram Rao:** If you see our Trivandrum project has contributed around 7-8% in this quarter and Madhurai project has contributed around 5%. These projects are almost on the verge of completion and have contributed almost Rs. 50 crores of turnover in the quarter. So these projects are giving good margins. Further, our back-to-back subcontracting has also gone down and is now at 9% for the quarter. Another aspect is the irrigation projects which have not contributed much which is only 10% but are giving good margins. Whatever assets are there in Irrigation, so we are

calculating depreciation on that based on the three-year life cycle and that depreciation is not coming in the EBITDA, it is coming below the EBITDA so that is why EBITDA margin in these project has been more than the other projects. We expect our EBITDA margins to be at around 16-17% which is our normal EBITDA to be there in future as well.

Parikshit Kandpal: This new irrigation project, which you have received, so this is a back-to-back subcontracting, so what kind of EBITDA margins we will be having in this project?

K. Venkatram Rao: Actually, right now we are estimating that it will be between around 15% to 18%, but we will start really seeing at the site and during the execution phase and we will workout. We are expecting between 15% to 18% EBITDA in this irrigation projects also.

Parikshit Kandpal: Just on the two BOT projects the Walayar and the Muzaffarpur-Barauni, so the Muzaffarpur project has seen excellent daily collections almost touching 27 lakhs this is almost I would say half of the cost of Walayar, which is much lower in terms of collection, so what is the status of Muzaffarpur-Barauni, is it going for augmentation or like if you can justify?

S. Vaikuntanathan: Yes, there was one announcement with respect to Barauni project by NHAI that it is coming under Bharatmala for 4 laning. As per the original scheme the capacity augmentation will come after seven to eight years, but if they announce the expansion of four laning we may have to see how it works out. So the guidelines from NHAI has still not come and we are also waiting for this, that is why we are not able to take any step on monetization of that project. In case of Walayar as we have informed the monetization process is on and we will try to do within this financial year.

Parikshit Kandpal: But in case of Walayar, we have invested close to Rs. 400 Crores, so are we confident that at least we will recover our investments here?

S. Vaikuntanathan: In Walayar, we may get may be Rs. 10 Crores to Rs. 15 Crores less than what we have invested, but we got a claim award of about Rs. 174 Crores already and the government i.e. NHAI has already filed appeal against the order in the court. So as we see the results of these arbitration will come within the next two years and as per the agreement the claimed amount received will be passed to the sponsor. So this claim amount will compensate for the lower amount received during the monetization.

Parikshit Kandpal: Sir, in your guidance of 10% to 15% growth this year of Rs. 2,400 crores, was the execution of the irrigation projects worth Rs. 1,600 crores which we may end up getting, already we have got Rs. 800 crore odd, so another Rs. 850 crores is coming so was that also baked in our guidance estimate of Rs. 2400 Crores?

K. Venkatram Rao: We have included this irrigation project. In Q1 because the appointment dates were delayed and we got them in the later part of this first quarter that is why we are not able to execute the projects at the expected pace. In Q2 also due to this rains we may be able to achieve as per our

target only, but definitely in Q3 and Q4, where all our existing HAM projects as well as the irrigation project will be on full swing. So we expect that we will achieve our guidance of Rs. 2400 crores.

Parikshit Kandpal: Sir, what is the contribution from irrigation you are expecting out of this Rs. 1600 Crores, how much do you think you can do execution this year?

K. Venkatram Rao: It may be around Rs. 500 Crores to Rs. 600 Crores.

Parikshit Kandpal: Sir, just lastly what is standalone debt numbers that number I just missed?

K. Venkatram Rao: It is Rs. 342 Crores.

Parikshit Kandpal: Including the promoter loan of Rs. 205 crores?

K. Venkatram Rao: Yes.

Parikshit Kandpal: And cash levels, standalone cash?

K. Venkatram Rao: Cash will be there around Rs. 20 Crores.

Parikshit Kandpal: Thank you; I will join the queue for more questions.

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. Sir, just two questions from my side, in your opening remarks you mentioned that in HAM projects that we are doing in the deal with the Cube investments, we will be investing around 198.5 Crores and we will get around 358 Crores, can I get those numbers right, please?

K. Venkatram Rao: I think we also said that in the page 22 of the presentation, we have explained that.

Vibhor Singhal: Sir, that is the three projects, what you mentioned does not include the fourth projects right, the fourth project deal details are not yet disclosed?

K. Venkatram Rao: It is included, so Rs. 198 Crores is including four projects, It will include the fourth one also. So fourth one think we told at that around Rs. 52 Crores we will invest and we will get around Rs. 95 Crores what we have disclose in the market today.

Vibhor Singhal: Rs.52 Crores we will invest and Rs.95 Crores will get in return. Sir, I missed your remarks over the topline growth, you mentioned that the topline growth of around Rs. 2400 Crores this year?

K. Venkatram Rao: Yes, correct.

- Vibhor Singhal:** And Sir, this will primarily come from the three HAM projects that we have started execution on?
- K. Venkatram Rao:** Primarily from the three HAM projects as well as the irrigation project that we are expecting to get, out of that we have already got one.
- Vibhor Singhal:** Right, and Sir, are we taking into account any execution on the Meensuruti project or that is not included in the guidance?
- K. Venkatram Rao:** We have included, it is a small portion, but definitely in this month end we have one meeting with the NHAI after that we will again revisit our number.
- Vibhor Singhal:** Sure Sir, and just last question on the overall bidding strategy and going forward so, as you mentioned that next month onwards we should see bidding activity from the government. So as of now you will be looking at the EPC projects primarily, or we will also be open to taking up HAM projects on an equal basis? The order inflow that you are looking at around Rs.1500 Crores, from the road segment do you believe an equal mix of EPC or HAM or majorly towards EPC?
- S. Vaikuntanathan:** We will bid for both EPC and HAM as per our profitability estimate whichever comes we will take it.
- Vibhor Singhal:** And any other HAM projects that we win, we would also be trying to sell those at whenever date required to Cube or any other investor right that is the model with that we are going to follow going ahead?
- K. Venkatram Rao:** Yes, definitely.
- Vibhor Singhal:** Great, Sir. That is all I have from my side. Thank you so much for taking my questions. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Priyankar Biswas from Nomura. Please go ahead.
- Priyankar Biswas:** Good afternoon, Sir. First of all your subcontract levels have gone down significantly like below 10% that I have seen is like the level for the last four quarters now, so what is the sustainable rate like do we see this rate persisting in the next one or two years, should this be a right number like below 10%?
- K. Venkatram Rao:** Yes, now subcontracting would not be much actually, because we will do our own execution. Here subcontract is completely back-to-back, but now this will be below 10% level only.
- Priyankar Vishwas:** For the next one or two year at least?

- K. Venkatram Rao:** Yes.
- Priyankar Vishwas:** The second question is that I have seen that your working capital level has suddenly risen up like if I compare versus the March quarter, so any specific reason why the receivables in particular has gone up?
- K. Venkatram Rao:** Definitely the receivables has gone up because we have executed almost Rs. 200 Crores of work in these HAM project, so out of that around Rs. 100 Crores we did in Tirupati and around Rs. 43 Crores we did in Trichy. These are the receivables that we are suppose to get from the SPV and so far we have not gone for disbursement of the debt also. So with our equity, whatever are the advances and the grant to be received from the NHAI, from that we are managing the project, so that is why it has gone up. After that we have received some part of advances in these SPVs and this debtors has reduced. By this year end, the position of the working capital will come back to old position, it will come down.
- Priyankar Vishwas:** So, essentially like since you have got the appointed dates now, and you would have put in the bills also so let us say in the September quarter we should have a more normalized working capital level as per the receivables is concerned?
- K. Venkatram Rao:** Yes, definitely.
- Priyankar Vishwas:** That should be right assessment, correct?
- K. Venkatram Rao:** At that time we will draw the entire mobilization advance and the first milestones of some project, even second milestone also we are going to achieve.
- Priyankar Vishwas:** So, working capital wise it will become better in Q2 and Q3?
- K. Venkatram Rao:** Yes, definitely.
- Priyankar Vishwas:** Sir, the last question from my side, can you give me the outstanding order book for your Madurai project, then Thiruvananthapuram bypass, Pollachi and Salem flyover?
- K. Venkatram Rao:** First, Thiruvananthapuram it is Rs. 103 Crores, Madurai it is Rs. 10 Crores only.
- Priyankar Vishwas:** Sir, it is almost over?
- K. Venkatram Rao:** Almost over, yes.
- Priyankar Vishwas:** Pollachi?
- K. Venkatram Rao:** Pollachi will be around Rs. 55 Crores.
- Priyankar Vishwas:** The flyover in Salem?

- K. Venkatram Rao:** Salem will be Rs. 53 Crores.
- Priyankar Vishwas:** Sir, your tax guidance remains unchanged, right for the year?
- K. Venkatram Rao:** Right now we achieve around 19%; it will be in the same range between 15% to 20% what we are telling.
- Priyankar Vishwas:** That is all, Sir.
- Moderator:** Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Thank you. Sir, one clarity, in terms of the order inflow when we are saying Rs. 1500 Crores that includes the upcoming expected Rs. 850 Crores irrigation order?
- K. Venkatram Rao:** Yes, it includes also.
- Shravan Shah:** But, at the same time we are also saying we are also likely to get a Rs. 1000 to 1500 Crores HAM project?
- K. Venkatram Rao:** Yes, that we are targeting. The range of HAM projects defers.
- Shravan Shah:** Sir, how much capex we did in the first quarter and now the irrigation is back, so what would be the capex for the full year?
- K. Venkatram Rao:** For the full year capex will be somewhere around Rs. 180 to 200 Crores, Sir.
- Shravan Shah:** First quarter, how much we did?
- K. Venkatram Rao:** This quarter we did around Rs. 90 Crores. That we did for mostly our new irrigation projects and our HAM projects. Most of the capex we have bought and further around Rs. 90 to 100 Crores we may buy for the balance period.
- Shravan Shah:** Now irrigation is there so in terms of depreciation, how do we see second quarter and the third and the fourth quarter, once again it will go back to the Rs. 50 Crores quarterly rate?
- K. Venkatram Rao:** Yes, it will go up to Rs. 50 Crores per quarter because irrigation project definitely we are doing based on our three year projects life, so based on that we expect that maybe in Q3 it may again touch around Rs. 45 Crores per quarter.
- Shravan Shah:** Got it and Sir, some outstanding order book for a couple of more projects, the Arunachal Pradesh how much is outstanding order book?
- K. Venkatram Rao:** Arunachal Pradesh is Rs. 125 Crores.

- Shravan Shah:** And Thiruvananthapuram bypass you said Rs. 102 Crores?
- K. Venkatram Rao:** Yes.
- Shravan Shah:** So, there and even in the Pollachi also I think it is the same, so we have not done not a single rupee revenue in this quarter?
- K. Venkatram Rao:** From which project, Sir?
- Shravan Shah:** Thiruvananthapuram and Pollachi both, I think the last quarter also the same order book and this quarter also, so there is no revenue or is there a change?
- K. Venkatram Rao:** Some additional work was there, Thiruvananthapuram we did actually Rs. 32 Crores of work in this quarter we did actually and there was some escalation so that is why it the same. In Pollachi also this quarter we did actually Rs. 23 Crores of work and after that this order book is around Rs. 55 Crores of Pollachi.
- Moderator:** Thank you. The next question is from the line of Jiten Rushi from BOB Capital Markets. Please go ahead.
- Jiten Rushi:** Good afternoon, Sir. Just wanted continuing on the earlier question, so at Hubli also there is a flat order backlog, so around Rs. 341 Crores or similar, so execution also has happened or it has just been flat because last time were some escalation?
- K. Venkatram Rao:** This quarter also we did around Rs. 50 Crores of work in Hubli.
- Jiten Rushi:** These all are escalation, which has resulted in the order backlog remaining unchanged at most of the places?
- K. Venkatram Rao:** Yes, that has been added so that is why it has come like that.
- Jiten Rushi:** Sir, in terms of old irrigation project of Yedula have we completed Rs. 25 Crores balance and KP Sagar also around Rs. 7 Crores? There is Palamuru lift irrigation also, which was there around Rs. 100 Crores plus last quarter?
- K. Venkatram Rao:** On that, this quarter we did around Rs. 27 Crores of work.
- Jiten Rushi:** In Palamuru?
- K. Venkatram Rao:** Palamuru yes that is Rs. 102 Crores was there last quarter, now order book is 77 Crores in Palamuru.
- Jiten Rushi:** This Palamuru will be completed by end of this year I am assuming?

- K. Venkatram Rao:** Yes, it will completed by the end of this year.
- Jiten Rushi:** Sir, KP Sagar it was completed or still there are some outstanding pending small work?
- K. Venkatram Rao:** Yedula, Rs. 13 Crores is there and in K.P. Sagar is almost over.
- Jiten Rushi:** Sir, margin guidance which you are giving for the new irrigation project, last time you had given a higher guidance like as you said, the irrigation projects do have between 20% to 25% margin because there are like 18 months contract, which you are targeted by FY2022, but now as you said EBITDA margin guidance from this projects are lower, so any reason why we have changed the guidance?
- K. Venkatram Rao:** We will go to the site and assess the situation, based on that we will formulate a strategy and plan our project accordingly. Earlier also in our old irrigation projects we thought that they will not give more than 10% EBITDA, but after going to the site and after proper planning we could achieve higher. We have mentioned 15% to 18% right now and definitely we will try to improve on this once we will have all the details in our hand we will share the data with you.
- Jiten Rushi:** Sir is there any reverse of provisions or reverse of expenses this quarter, which has also, has in higher margin?
- K. Venkatram Rao:** No, nothing of that sort.
- Jiten Rushi:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Prabhudas Lilladher. Please go ahead.
- Dhiral Shah:** Sir, just couple of questions, what is the gross standalone debt levels?
- K. Venkatram Rao:** Rs. 341 crores including promoter debt of Rs. 205 Crores.
- Dhiral Shah:** Sir, what is the total equity requirement in our all the HAM portfolio and what is amount invested as on date?
- K. Venkatram Rao:** This total equity requirement for all the projects as of now it is around Rs. 611 Crores, out of that we have invested as of now around Rs. 183 Crores.
- Dhiral Shah:** And that would be pertains to four HAM projects right?
- K. Venkatram Rao:** This pertains to the three HAM projects, the fourth HAM which is Chidabaram project we invested only Rs. 8 Crores upto now which is included in this Rs. 183 crores. For Chidabaram project we have to invest another Rs. 15 crores from our side. Apart from this whatever is the

equity requirement for us we have already invested in our HAM projects. Remaining equity is to be invested by Cube.

Dhiral Shah: In the meanwhile once you have the appointed date you can start the construction, draw down the debt upto 90% land availability and and post that the Cube can come and invest the remaining money is the understanding correct?

K. Venkatram Rao: Yes, Sir.

Dhiral Shah: Fair enough, Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Faisal Zubair from HG Hawa Co. Please go ahead.

Faisal Zubair: Would I be right in saying that right now that the same teams are managing projects over Rs. 1000 Crores we are now getting some cost benefit also? and would it be a right method to go in for more aggressive biddings because most other players now have a lot of finance problems and they have not been able to bid on HAM projects?

K. Venkatram Rao: Sir, if you see our HAM project model we have already tied up for a back-to-back sale of those projects. So at the end of four year all our debt will be passed on to them and whatever capital we have invested it will come back. So we do not feel that we will get stuck up for a long period. Then we are also trying to monetize the Walayar project and that also will give some cushion. We are not aggressive in bidding, so we are just waiting for the market and the lender are also not available to lend. Fortunately for us because of strong balance sheet we do not find any problem in that.

Faisal Zubair: My question was reverse, my question is that since other players are hampered by not getting credit their balance sheets are stressed why can we not shift gear and bid more aggressively for more HAM projects because others will not have the capacity to take those orders?

K. Venkatram Rao: Sir, we want to go slowly only not bid more projects because whatever we can chew we have to take it and that is why we are going slow and steady. We feel this approach will definitely help us in tying up all the projects.

K. Jalandhar Reddy: I am Jalandhar Reddy, I was hearing about your question, actually this year we have targeted to do turnover about Rs. 2500 Crores, so definitely around Rs. 2500 Crores we would like add first preference will be obviously given for EPC, but if we are not able to get EPC then preference will be given to HAM project. We are in a process to get more HAM Projects and get some order to the company. I think now the tendering process in NHAI is very slow and another three to four months I am not seeing any big improvement, but I think year ending again there could be a tender rally that could happen, so definitely we are focusing that.

- Faisal Zubair:** Are the 1000 Crores orders helping us because the same team which were executing 300 Crores, 400 Crores orders are now executing 1000 Crores orders so it is helping in benefits of scale and same people, are we able to really cope up with the bigger load?
- K. Jalandhar Reddy:** Yes, in fact we might have seen earlier the Rs. 400 Crores projects, the older team is assigned with some additional members as well as we have also bought new equipment, so both manpower wise and the equipment wise both are being strengthened. Moreover, instead of handling too many projects in a smaller scale it is better we go on to handling bulk projects and that will give us good returns as well.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, any claim we received likely received in Q2 or this year as there are so many claims are pending?
- K. Venkatram Rao:** Yes, actually we have received one claim in Q2 for our irrigation project amount is to around Rs. 53 Crores and other than this we are expecting further around Rs. 25 Crores to 30 Crores claim in this year. There are many claims pending in different high courts so we may expect this in the next two years we will be able to get all our claims.
- Ravi Naredi:** Can you tell how much is the amount of claims?
- K. Venkatram Rao:** Totally Rs. 532 Crores award in our favor.
- Ravi Naredi:** And this Rs. 53 Crores will transfer to bottom line this second quarter?
- K. Venkatram Rao:** Rs. 53 Crores includes the interest portion also, so that will directly hit the bottom line to the extent of around Rs. 30 Crores will be added in the bottom line.
- Ravi Naredi:** 30 Crores, it is a very good amount, Sir. Thank you very much and we have any project is L1 in our company?
- K. Venkatram Rao:** As of now, no.
- Ravi Naredi:** You are doing very nice. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Shriram Kumar from Spark Capital. Please go ahead.
- Shriram Kumar:** Thanks for the opportunity again. Sir, we have said that we are going to win around, I mean we are targeting around 2500 Crores of order inflow this year, assuming that we are growing at 15% and 20% this year and next year, we will most likely acquire Rs. 3000 Crores of order inflow for

us to grow in 15% in FY2022 also, so if you are targeting lower order inflow this year, will that not affect our FY2022 execution?

S. Vaikuntanathan: See, the bidding will start from the next three months as per our estimate. So we hope that we be definitely trying to get around Rs. 1500 to 2000 crores. Going ahead we will review the situation and tender for more orders as and when we feel as per our strategy. Most of the order book will come in the second half of the year, we expect that the irrigation project may come very shortly, but other than this if any HAM projects are coming they will start from the end of Q3 and after doing the financial closure and getting appointed date it may not get reflected in this year.

Shriram Kumar: Correct, that is my point exactly, so let us say we are getting order in Q4 and HAM projects generally they are getting appointed dates come after one and one and half years, so for us to show growth in FY2022 we should ideally be bagging more than Rs. 2500 Crores this year, that is the reason why I asked this question?

K. Jalandhar Reddy: No, in order to cover up we are already planning to pick up some order in this year itself in fact we have been participating in many of the tenders that are happening currently. We are trying in our interested areas only and right now we are focusing in Tamil Nadu, Karnataka and Maharashtra. Additionally, we have identified certain projects that likely to come up in UP also, we are also planning to bid for these going forward.

Shriram Kumar: Sure, thanks a lot.

Moderator: Thank you. The next question is from the line of Sriram Srinivasan from Ksema Wealth Management. Please go ahead.

Sriram Srinivasan: Actually IMD expecting the monsoon of North East monsoon is likely to come in the next two weeks as well a week ahead, South East monsoon likely to come, so most of our projects were there in the state of Andhra Pradesh, Telangana and Tamil Nadu, so it is south region, so how this things are going to affect our business that is what I am asking?

K. Jaladhar Reddy: Definitely, there is an impact. The first quarter is down because of the appointed date have been delayed, in second quarter we have received the appointment dates but there is monsoon season so the execution normally slower than other quarter. We are expecting two irrigation projects to come in soon which we will start executing. So we expect all rojects to start execution in full swing from Q3 onwards. We are expecting a very good growth and trying to achieve the target whatever we have projected.

Sriram Srinivasan: Sir, my second question is that we have already passed 45 days of the Q2 right and another 45 days to go for Q2, so there is no that much impact will be seen in the Q2 right comparatively it will lower when compared to last year right?

K. Jalandhar Reddy: Of course, yes.

- Sriram Srinivasan:** As well as in terms of irrigation what is the period of construction, for roads we have been projected to 730 days it means two year, what will be for irrigation projects?
- K. Jalandhar Reddy:** Time limit for these new irrigation projects, which we have picked up are only for 15 months time. These projects are older projects so we will have to gear up and complete in 15 months.
- Moderator:** Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, just wanted to know how much total increase in scope of work in this quarter we have done?
- K. Venkatram Rao:** Scope of work increased in this quarter around Rs. 100 Crores.
- Shravan Shah:** Second thing is, in KSHIP HAM project our equity in presentation I can say the equity has increased from Rs. 53 Crores to Rs. 122 Crores and even the TPC has also changed, can you explain?
- K. Venkatram Rao:** Because now in this quarter we have done the financial closure and we have submitted all the documents to the authority so this is based on financial closure requirement. There is some change in the project cost as well as debt equity component also. Initially we expected that debt to equity will be around 80:20 but it has not gone, because this is a KSHIP project, where NBFC has come forward and funded the money. So they have asked for more equity so that is why it has gone up as well debt as some portion of cost also.
- Shravan Shah:** But, from Rs. 53 Crores it has actually more than double the equity requirement, so when we bagged the project in terms of equity IRR we would be getting a 14% to 15% or 12% equity IRR and now it will be half than 5% to 6%, so just trying to understand is it worth to go for this project?
- K. Venkatram Rao:** Because this project has good EPC cost also, we have to see it from both EPC as well SPV level so both put together this project is giving good return. So there is not much issue on this because most probably this money will come in the form of grant only from that only we will able to complete the project that is why we have taken that call and going ahead.
- Shravan Shah:** With this new equity, how much we think equity IRR we can get from this project?
- K. Venkatram Rao:** Still we are getting around 14% of equity IRR in this project and debt is also reduced, we have reduced the debt, to some extent the interest element also has come down.
- Shravan Shah:** That is it from my side, thank you.
- Moderator:** Thank you. The next question is from the line of Jiten Rushi from BOB Capital Markets. Please go ahead.

- Jiten Rushi:** Thanks for taking my question. Sir, question is regarding the revenue mix this year, so what kind of revenue mix we are looking from the HAM, the irrigation and the older EPC projects are we looking our older EPC projects to complete except for the Hubli project?
- K. Venkatram Rao:** Yes, almost actually all projects except Hubli will complete in this year and some portion might be there for Arunachal Pradesh, so other than this project, all projects will be completed in this year. Even Arunachal we will also complete in this year.
- Moderator:** Thank you. The next question is from the line of Koundinya N from JM Financial. Please go ahead.
- Koundinya N:** Sir, just trying to understand, what I understand is that Cube has reserved certain amount of money for our HAM projects, now in a hypothetical scenario if we decide to give back the Chidambaram project due to land acquisition issues, how will that pan out, will we still have the money left?
- K. Jalandhar Reddy:** As per the memorandum that has been signed, the project has to be constructed and then only the SCA and all will be signed. We have had a discussion with cube regarding this project so they are fully with us even if we decide to drop out of the project. We have a meeting with NHAI at end of this month to discuss on this. There is one village called Mannargudi, which is falling in the center of the bypass, the bypass length in Chidambaram project is about 24 km in which around 6 km is falling in between is getting disconnected due to heavy resistance from that village. So this 6 km NHAI wants to de-link out of it, once they de-link we will not be able to access the other part and we have to take the village route again to carry the material through a small roads like village with this heavy equipment is going to be a problem. So definitely if the project is getting into two different parts then the project is not going to be viable for us, so we are also thinking to give back the project to NHAI or we are asking certain compensation which NHAI can give according to the contract now the project has been delayed by one year four months, so we desire to get certain penalty, which is about Rs. 4 Crores. If they are able to pay that definitely we can continue to take up the project, so these things we are going to represent in the meeting. So definitely we are in thinking mode that to drop it, so that way it will be better to even inform you.
- Koundinya N:** Understood Sir, my question is more on that side, for example, Cube has reserved around Rs. 60 Crores for this Chidambaram project, now suppose if we choose to drop this project, will that Rs. 60 Crores be available for us for a different HAM project in case we bid for something?
- K. Jalandhar Reddy:** Yes, we have spoken to them actually they are even willing to take few more projects from us like that Dindigul-Pollachi, we have got one project, that also they are asking us to associated with them, so definitely those options are available.
- Koundinya N:** Sure Sir, understood. Thank you very much.

- Moderator:** Thank you. The next question is from the line of Sriram Srinivasan from Ksema Wealth Management. Please go ahead.
- Sriram Srinivasan:** Sir, just I need to confirm one thing, actually you have mentioned that almost 6000 km of road to be awarded from NHAI for this particular financial year right FY2020?
- K. Venkatram Rao:** Yes.
- Sriram Srinivasan:** Fine, how much roads as of now have been awarded still for the last four to five months from beginning of the fiscal?
- S. Vaikuntanathan:** From March-April no new award has come. small projects have come in EPC and now we understand that from September onwards the awarding may take place so they want to clear all the backlog portion of 6,000 km .
- Sriram Srinivasan:** Can you just brief me out one thing just to confirm my observation from this, whether from the existing order what we are having from the appointed date what we are expecting from NHAI will go in to bring up the topline to the company, it is apart from the additional order book right?
- K. Venkatram Rao:** Right.
- Sriram Srinivasan:** Thanks a lot, Sir. So, NHAI is looking forward of 6000 km for this fiscal to be awarded right?
- K. Venkatram Rao:** Yes.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, what is the gross profit and net profit margin you are expecting current year?
- K. Venkatram Rao:** EBITDA actually we are expecting around 17% to 18% for the entire year and it may further little bit go up because we are expecting some claims in Q2 we are telling the normalized between 17% to 18% EBITDA.
- Ravi Naredi:** With this claim, we may expect 20%?
- K. Venkatram Rao:** It will be 20% definitely.
- Ravi Naredi:** And what is the net profit margin?
- K. Venkatram Rao:** Net profit margin will be the range between 10% to 12%.

- Ravi Naredi:** Sir, when you made this investor presentation why not you give break up of all projects we are doing, how much completed and how much pending so again and again the investor will not raise the question if possible?
- K. Venkatram Rao:** You are talking about HAM project, Sir?
- Ravi Naredi:** Every project.
- K. Venkatram Rao:** Sir, basically we are giving top five projects because there will be lot of projects in kitty, so whatever the top five projects what is their contributing that we will show in the presentation, if any other information you require we are happy to provide you separately.
- Moderator:** Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Good evening Sir. Thanks for taking my question. My question on KSHIP, has there we have any change in the terms that we have earlier agreed with the state government because when as I see today our grant that you are getting is 65% of the total BPC I thought it was suppose to be 75:25 grant?
- K. Venkatram Rao:** It is still 75% of total BPC; there is no change on that.
- Prem Khurana:** No, the numbers that I have in front of me it is Rs.1145 Crores of bid project cost and grant is Rs. 749 crores, so which works out to be 65% of the total?
- K. Venkatram Rao:** Sir, two things are there, as per the concession agreement their TPC is Rs. 998 Crores, so they will give 75% of the BPC, but maximum to which is either Rs. 1000 Crores or Rs. 1145 Crores. So they will give 75% of this in a form of the support and balance they will give in the form of the annuity, actually their TPC is Rs. 998 crores and BPC Rs. 1,144 crores, so they will give 75% of Rs. 998 crores only in the form of concession support.
- Prem Khurana:** And the returns that you get annuity and the interest can come out beyond the revised bid project, because we are not on the cover?
- K. Venkatram Rao:** Correct.
- Prem Khurana:** Thank you.
- Moderator:** Thank you. Due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

K. Venkatram Rao: Thank you every one for participation in our earning call. In case of other queries you may get in touch with the strategic advisors our investor relations advisor or feel free to get in touch with us. Thank you very much.

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