



“KNR Constructions Limited
Q3 & 9M 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 Q3 & 9M 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 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 will now 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 the quarter and nine months ended December 31, 2018. 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 note on key updates on the industry, then we will discuss the company’s performance.

During the first nine months of this financial year, the awarding activities remained very subdued. Multiple HAM projects awarded last year are yet to receive appointment date and land acquisition problems in various states have been the cause of lower awarding. Additionally the delay in receiving financial closures from banks due to higher due diligence has also been a major hurdle for the overall industry. However, awarding activities have picked up in Q4 FY2019 and there are number of projects that are been lined up NHAI. Projects worth Rs.90,000 to Rs.1 lakh Crores are being tendered at the moment. We believe that the focus on execution will remain a priority. The Ministry of Road Transport and Highways has constructed 5,759 kilometers of national highways for the first nine months of FY2018-2019, as against target of 10,000 kilometer for the full year. Moreover NHAI has started expediting giving out financial closures and appointed dates for the hybrid annuity projects, which we are awarded during the last year. This would further improve the pace of construction in the coming year as well.

The next phase of highway development in India will focus on building express ways, which allow uninterrupted traffic flow. There are several projects that are in the pipeline including Bharatmala 2. Under the second phase of Bharatmala, the government has proposed to build nearly 3,000 kilometers of expressways including Varanasi, Ranchi, Kolkata, Indore to Mumbai, Bengaluru-Pune and Chennai-Trichy. Some of the other identified greenfield highways including Patna-Rourkela, Jhansi-Raipur, Solapur-Belgaum, Bengaluru-Kadappa-Vijayawada Gorakhpur-Bareilly and Varanasi-Gorakhpur. As per sources the target date for rolling out these roads totalling around 4,000 kilometer under Bharatmala phase 2 would be 2024.

In order to create more discipline in bidding, NHAI is considering to tighten the norms for developers to bid for road projects under EPC mode. This is an effort to disqualify weak and nonperforming and incapable developers from winning projects. This may lead to competitive intensity coming down in this space going ahead.

On the funding side, recently NHAI is said raise up to Rs.10,000 Crores in its maiden public issue of taxable bonds for retail investors. NHAI has already sold Rs.29,000 Crores of bonds to top institutional investor such as LIC and State Bank of India. TOT as well as other fund raising options should help NHAI to raise enough fund for future infrastructure development.

Now coming to the company, we are very pleased to inform you that we have received the official financial closure letter from NHAI for all four HAM projects and we have received the appointed dates for Tirumala project on January 4, 2019 and we are awaiting the appointed date from NHAI for three projects of which two projects namely Trichy and Chidambaram projects may come by next month end and the other one Shankarampet by April month. We have already setup our camps at the work site and we are ready to start the execution as soon as we received the appointed date letter from NHAI.

With regards to KSHIP HAM project, the construction agreement has been signed on January 18, 2019 and we are in the process of completing financial closure of the project. We are also very pleased to inform you that we have entered into a share purchase agreement with Cube Highways and Infrastructure III Private Limited for our Trichy, Tirumala and Chidambaram project and for the fourth one due diligence is in progress. As per the agreement with Cube Highways and Infrastructure, the company will sell the entire project to Cube Highways in two stages, with the first stage scheduled to be completed after achievement of COD and second stage scheduled to be completed after the mandatory lock-in period as per the concession agreement. The KNR is expected to invest Rs.145.34 Crores, which is 51% of the project equity requirement against which the company will receive approximately Rs.262.5 crores from these three projects where SPA has signed, which may undergo some changes at the time of COD. Cube to invest 49% after 90% ROW during construction .

Out of the total orderbook of Rs.5,516 Crores including five projects, our EPC order book as on December 31, 2018 is Rs.1,540 Crores consisting of 79% of road, 21% of irrigation, the roads are mainly from NHAI, which is 63% and state project is 37%. In the current quarter, we have seen change of scope in our existing orderbook for the following projects, Hubli Rs.61 Crores, Coimbatore Rs.20 Crores, , MPRDCL Rs.15 Crores etc. We expect a large number of works to be awarded for the rest of the financial year where we plan to participate in a significant way. We will continue to bid projects, which fits our strategy and expect to win around Rs.2,000 Crores worth of orders in the next three to six months.

Update on BOT projects, as you are aware, our stake of 100% in Walayar-Vadakkancherry project has started 100% toll collection and the current average toll collection is around Rs.16 lakhs per day. We are witnessing an improved toll collection on this stretch. The current toll

collection is sufficient for the 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 Rs.20 lakhs per day. In this project, we hold 51% stake and have invested around 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 and nine months ended December 31, 2018.

K. Venkatram Rao:

Good afternoon. I believe you have had an opportunity to see our results and the presentation that we have circulated and uploaded in our website. I would now present the results for the quarter ended December 31, 2018.

The total revenue on the standalone basis is Rs.448.89 Crores in Q3 FY2019 as against Rs.433.19 Crores during the same period in the last financial year, a growth of 4%.

Our standalone EBITDA for Q3 FY2019 is stood at Rs.90.12 Crores with a margin of 20.1%. The EBITDA margin is higher than our normal range of 15% mainly due to higher revenue from the irrigation project, which are yielding better EBITDA and reduction of back-to-back subcontracting. The standalone profit before tax stood at Rs.59.53 Crores in Q3 FY2019 as compared to Rs.62.43 Crores in Q3 FY2018. The PBT for the Q3 FY2019 is lower as compared to Q3 FY2018 due to higher depreciation in irrigation project and increase in equipment bank as well as higher interest cost due to increase in unsecured loan from the promoters to Rs.218 Crores. The standalone profit after tax for Q3 FY2019 is Rs.52.11 Crores with a margin of 11.6%. The net profit has been lower on year-on-year basis primarily due to higher tax provision as project enjoying 80IA benefits are getting completed.

Moving on the performance for the nine months ended March 31, 2018,

The total revenue on standalone basis is Rs.1,421.54 Crores in nine months FY2019 as against Rs.1,307.28 Crores during the same period in the last financial year growth of 9%. Our standalone EBITDA for nine months FY2019 stood at Rs.283.12 Crores as compared to Rs.265.40 Crores during the same period in the last financial year. EBITDA margin for nine months FY2019 stood at 19.9% as against 20.3% in the nine months of the last financial year. The standalone profit before tax stood at Rs.189.22 Crores in nine months FY2019 as compared to Rs.187.04 Crores in nine months FY2018 a growth of 1%. The standalone profit after tax for nine months FY2019 is Rs.121.11 Crores with a margin of 12%.

On our balance sheet side As on December 31, 2018 the debt on standalone basis is Rs.240 Crores including promoter loan of around Rs.218 Crores and the net working capital days is 26 days. With this we now open the floor for question and answer.

Moderator:

Thank you very much Sir. 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.

We have a first question from the line of Parikshit Kanpal from HDFC Securities. Please go ahead.

Parikshit Kanpal: Congratulations on good set of numbers. Just wanted to know, now we have hardly Rs.1500 Crores of EPC projects left and large part of order book is from HAM now, where the payments will come from NHAI on a milestone basis, so how do we see our net working capital, which is currently 26 days moving ahead in FY2020-2021?

K.Venkatram The R existing EPC orderbook position of Rs.1,540 Crores has already been planned to be completed within the next one to one-and-a-half years, so that revenue generation will be there, there is no problem and as far as the HAM is concerned where the payment from NHAI will come on milestone basis, but we also get the initial mobilization advance where the funds will be utilized for the working capital purpose and for other site development purpose, so we do not foresee any major strain on the working capital finance, may be going forward the 26 day working capital number may go up to 40, 45 days and again normalize to 26, 27, 28 days, that is what we internally project.

Parikshit Kanpal: The working capital cycle is in the range of 25 and 45 days is that what you are trying to say?

S. Vaikuntanathan: It may go up to 40 and come back again to 26-28 days. If our momentum of work goes up then normally there may be some requirement, but if the milestone payment is released then there will be a reduction in working capital, so we hope that there would not be much pressure on the working capital cycle

Parikshit Kanpal: But on the working capital debt, totally Rs.250 Crores of debt we have including the term loan,?

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K.Venkatram We do not have any term loan, we mainly have loan from the promoter and then we have equipment finance which is very, very nominal, and also our utilization of working capital sanction limit is approximately 10%, so taking all these things into account, we can manage our present working capital cycle and if at all required, a little addition may be there, which will once again come back once the volume of work picks up.

Parikshit Kanpal: So debt will sustain at the current level, even for next year?

K.Venkatram Maybe another Rs.20 Crores, Rs.25 Crores of additional debt may be there, maximum.

Parikshit Kanpal: Sir just on this irrigation projects as now we have Rs.300 Crores of work left. We have been getting very good margin on irrigation project, which has been aiding our EBITDA margins for this year, so what is the pipeline on the irrigation side and how do you see margins panning out for next year when these works get over?

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K.Venkatram We expect that the government may go ahead with some irrigation projects we have already shown our performance and we were number one in completing the project in time and even one of our project Kaleshwaram was informed as case study, so we feel that we will have a major opportunity to get some more irrigation project if at all they come out. We hope that it may take another two to three months' time for the government to decide.

Parikshit Kanpal: Sir lastly on the Cube deal, so now they are bringing in around Rs.190 Crores, I think for their share, which will come in and then they will give you exit also like on your part at 1.75, so I think Rs.400 Crores or Rs.500 Crores will roughly go towards that, so now – for other projects in HAM, so what kind of arrangements we have, what kind of kitty Cube has promised you in terms of like how much they can further invest?

S. Vaikuntanathan: No all the four HAM projects with Cube is on the same understanding there is no difference.

Parikshit Kanpal: For future projects?

S. Vaikuntanathan: No, the existing four projects. Future project, whenever we will get the orders they will come at that time we will discuss, As far as the four projects is concerned it has been finalized and we are going ahead like this.

Parikshit Kanpal: There is no ROFR on that I mean the right of first refusal by Cube for any new HAM project like if you get another?

K. Venkatram Rao: No this deal is on Standalone basis. Project-to-project structure of deal. There is no hold co. structure like that, so when we will get the project we will discuss with them and then we will move forward.

Parikshit Kanpal: Okay Sir. I will join the queue for more questions. Thank you.

Moderator: Thank you Sir. We have next question from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: Good afternoon. Thank you for the opportunity. Just wanted to understand that given the contribution of irrigation to higher EBITDA margins, is it possible to understand what is the contribution of irrigation to the overall EBITDA in Q3 quarter and nine months?

- K. Venkatram Rao:** For this quarter it has contributed more than 20% in the turnover and for the the nine months it has contributed more than 25%. The reason why irrigation project is getting good EBITDA margin, is because . in irrigation project we have put a lot of machinery and the depreciation charged on it comes below EBITDA that is why the EBITDA is not comparable to other project.
- Subhadip Mitra:** I understood, so is it also possible to know what is the contribution to EBITDA for the irrigation segment?
- K. Venkatram Rao:** That I will have to workout separately and share it with you as of now we have only worked out for the turnover
- Subhadip Mitra:** Secondly given that we are looking at a very healthy order book and growth coming ahead, is there any requirement for incremental capex and what would be your guidance on capex for the next one to two years?
- K. Venkatram Rao:** Actually this year we have started mobilization for four HAM project and this year we have incurred almost Rs.160 Crores capex as of December 2018 and we expect that it may go up to Rs.190 Crores-Rs.200 Crores for this year, but next year there would not be much requirement for these projects. But if any new HAM projects or any other EPC project is awarded to us then the requirement may go up., for the next year it may be around Rs.100 Crores to Rs.130 Crores.
- Subhadip Mitra:** Okay, so Rs.100 Crores to Rs.130 Crores once new project come in your order inflow?
- K. Venkatram Rao:** In next year.
- Subhadip Mitra:** I understood. Lastly more of a macro question, , I was going through your presentation as well as what you mentioned on irrigation, so two parts here, one is we understand there is a pipeline for road-related capex. On the irrigation front, what is the expected order basket that you can expect, what is the size of overall projects and possibly how much of that is you are targeting and similarly I also see in your presentation, there is a point on looking at metro and elevated corridors and railway related projects, which is where you want to diversify later on, so there again if you can throw similar light as you know what is the overall basket and what is your sense?
- S. Vaikuntanathan:** After executing the irrigation project, , on a standalone basis we are eligible to get orders worth Rs.1200 Crores to Rs.1400 Crores on our name. So we feel that we may at least do anything between Rs. 700 Crores to Rs 900 Crores without any concern, we do not want to go ahead for a very big projects immediately, each project maybe Rs.750 Crores to Rs.900 Crores if it comes then we will be looking for that and with regard to the metro, yes we have completed Coimbatore flyover and we are also doing the Salem five junction flyover in a faster pace and our performance is also satisfactory that's what the government feels, but we will also look for moreflyovers in those areas

- Subhadip Mitra:** Okay. Thank you. That is it from my side.
- Moderator:** Thank you Sir. We have next question from the line of Santosh Desai from SBICAP Securities. Please go ahead.
- Santosh Desai:** Many thanks for the opportunity Sir. In the opening remarks you mentioned about the consideration which KNR will receive for the Cube deal, which is about Rs.260 Crores , where you said that it may undergo some changes at the time of the COD, so I am just trying to understand what these changes are and how is it benchmark to or is it linked to project cost of execution or what could lead to changes to the total consideration?
- K. Venkatram Rao:** As you know in HAM project we receive 40% from the NHAI and 60% in the form of annuity, but the annuity is based on the completion cost that can be arrived only at the date of COD, so what happen as of date actually we have arrived on completion cost based on some assumption of taking the inflation, so if that inflation will change then accordingly the completion cost will also change. So that is why it may undergo some changes at the time of COD basically due to change in the inflations and if suppose there is any change in the project cost that also will come at that time.
- Santosh Desai:** So the future annuities are linked to the bid project cost right, so that would not change?
- S. Vaikuntanathan:** It is based on completion cost, so completion cost is arrived only on the date of COD.
- Santosh Desai:** Right, so based on that the total consideration could undergo some change?
- S. Vaikuntanathan:** Little bit change may happen.
- Santosh Desai:** Sure. Second question, just wanted to get the status of land for each of these HAM projects that we are working on currently?
- S. Vaikuntanathan:** Yes, with regard to the Tirumala project we have already achieved 80% 3H land and in fact MoU also has been signed for that purpose and simultaneously we are also in the process of getting one GAD approval which. is in the final stage,. With regard to two of our Tamil Nadu projects of Trichy and Chidambaram in one of the projects I think MoU is about to be signed and another project we are likely to sign by March/April. There they have requested some time for standing crops to be completed. We may take another 10, 15 days for completing this process, so in another 10, 15 days we should get appointed date and estimated land up to 80% 3H in both the project., only in the case of fourth project it may take another one month time as in the last stretch there is a little forest clearance which is there and we have to wait for that.
- Santosh Desai:** Sure and what about Malgudi project Sir?

- K. Venkatram Rao:** For that we have signed the concession agreement, , so we are in process of achieving the financial closure growth.
- Santosh Desai:** So there the land acquisition should be in a little early stages right?
- K. Venkatram Rao:** Really we have to see that, so far we have just signed the concession agreement in last month, so we are assessing land acquisition status.
- Santosh Desai:** Sure, so last question, you did mention about order inflow you are targeting at about Rs.2,000 Crores odd for this year, just wanted to get a sense, would your preference be more of EPC or you are open to HAM as well, how it would be like?
- S. Vaikuntanathan:** We have already started bidding for HAM projects wherever we feel that it is near to our logistics and other things and we are hoping at least to corner at least one projects of HAM and with regard to the EPC it is a mixture of irrigation, flyover and also roads, so there will be a mixed bag of all these projects, we are hoping.
- Santosh Desai:** Okay, so in this Rs.2,000 Crores guidance you are saying one could be HAM and the balance EPC?
- S. Vaikuntanathan:** Yes.
- Santosh Desai:** Alright Sir, that is it from my side. Thank you so much.
- Moderator:** Thank you Sir. We have the next question from the line of Priyankar Biswas from Nomura Securities. Please go ahead.
- Priyankar Biswas:** Sir my first question is what would be your guidance for FY2019, so since in nine months it seems we have done quite ahead of the curve?
- S. Vaikuntanathan:** Earlier we had said we will do little bit 5% less than the earlier year project because the appointed date is getting delayed, though we got for Thirumala project, other two projects in the next 15 days we will be getting and the fourth project will get in another one month's time. Though our wish is that we should at least achieve the last year turnover still we maintain that same 5% less than last year.
- Priyankar Biswas:** Okay. My second question is, so you mentioned about this change in scopes, so if you adjust for that, can you just tell me like what would have been the execution rate for Hubli Hospet first and then also if you can give me the backlogs for Arcot-Villupuram and Madurai-Ramanathapuram?
- K. Venkatram Rao:** For Hubli Hospet, this quarter actually we did around Rs.61 Crores of turnover and there is a change of scope of around Rs.61 Crores of their's, that is why there is no major change in the

orderbook from last quarter to this quarter and in respect of this Arcot-Villupuram we have closing orderbook of around Rs.20 Crores.

Priyankar Biswas: Okay and Madurai-Ramanathapuram?

K. Venkatram Rao: Madurai-Ramanathapuram, it is around Rs.51 Crores.

Priyankar Biswas: And I just missed a few of the numbers, so change in scope of Hubli was Rs.61 Crores, so what were the other change in scopes?

K. Venkatram Rao: In Coimbatore, it is Rs.20 Crores and Polachi it is around Rs.15 Crores and MPRDCL is Rs.15 Crores. This change of scope include some cost variations also.

Priyankar Biswas: Okay, that is all from my side Sir. Thank you.

Moderator: Thank you Sir. We have next question from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Sir when we say that the entire transaction with Cube will be divided into two stages, so at what stage will we get money?

S. Vaikuntanathan: Actually with the Cube we will get money in the two tranches.

Ankita Shah: Any percentage, at what stage, how much money will be received?

K. Venkatram Rao: we will receive around 50% on COD and COD plus two year we will receive balance 50%. In other way on COD they will own 74%, we will be 26% and as per the provision we have to keep that and on COD plus two the balance 26% also will be passed on, so they will become the owner of the project

Ankita Shah: 74% would be received at stage 1?

S. Vaikuntanathan: , 51% and 49% initially will be the investment and on COD date 50% of 51% they will reimburse and that translate into 74 and 26 and balance on COD plus two, 26 will be transferred.

Ankita Shah: Okay, sure got it, fine and Sir all appointed dates for the balance three projects is expected to come before FY2019 end right?

K. Venkatram Rao: Yes we are expecting it.

Ankita Shah: Sir if you can highlight the total change in scope or variations that has happened this quarter?

K. Venkatram Rao: It is around Rs.150 Crores.

- Ankita Shah:** Perfect. Thank you, that is it from my side. Thank you and all the best.
- Moderator:** Thank you. We have next question from the line of Sanjay Ghosh from SG Capital. Please go ahead.
- Sanjay Ghosh:** Good evening Sir and thank you taking my question. The question is in relation to the Cube highway correct me if I am wrong, I heard that we are going to put this money whatever 49 and 51 during construction and on COD we will get 74% of 51%, which is is let us say 36 for this project?
- K. Venkatram Rao:** It is like during construction period first we have to put our portion of 51%, after that, our project suppose Rs.100, so we have to put first Rs.51 after that during construction period they will put Rs.49. And on COD date suppose project value is Rs.120 Crores, so $120 \times 51 / 0.5$ we will receive actually and same way in COD plus two.
- Sanjay Ghosh:** Okay, but where is the 74, 26 featuring is what I am missing out?
- K. Venkatram Rao:** 74, 26 is in principally on COD date, they are having around 74% stake in that project.
- S. Vaikuntanathan:** 49 plus 25.
- Sanjay Ghosh:** Okay. Thank you very much Sir.
- Moderator:** Thank you Sir. We have next question from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.
- Faisal Hawa:** My question is with regards to the future order position. How do we see the 2018-2019 orderbook will pan out with the code of conducts coming into in the next one month itself, we still feel that there could be a plethora of orders coming in and my second question is how are we doing on the new verticals plan where we were going to bid for some metro projects, some large flyovers and also in the irrigation verticals. So can you throw some more light, also can you tell me whether so many peers who are not being able to get their HAM projects funded would that be an advantage to us and how many people you feel that this industry could narrow down, it could be like final player, 6 to 7 players, two to three years from today?
- S. Vaikuntanathan:** Regarding your question number one, we said we will be having a mixed bag of EPC projects like some roads in NHAI and also in States and also flyovers and also in irrigation. And with regard to the metro flyovers yes once we complete the Salem we will have the qualification to do these segmental metro projects bidding, but however, we will be looking at flyover projects in the same State because we have completed two projects and we have got a good name there in completing the flyover project and coming to this HAM project, yes, the HAM projects, basically the lenders are little bit lukewarm to the HAM projects because of the many other internal policies and procedures and as it is we have now done the financial closure. Going forward we

will only restrict our intake of HAM project, we will take one or two projects, balance we will mainly concentrate on EPC. Once the market perception changes then we will go for more projects.

- Faisal Hawa:** About the competitive intensity, if you could have comment please?
- S. Vaikuntanathan:** Competitive intensity, now six, seven bidders are there, it is not that all the six are coming, they normally tend to bid in their region choice and other things, but we see around four people are there in any projects.
- Faisal Hawa:** It is like very pertinent to nonpertinent people like L&T and people like Reliance Infra. They have also gone out of the play even they are finding it difficult finding the projects.?
- S. Vaikuntanathan:** They have not come, maybe in future we do not know how it will be, but now I think there are some six, seven players are there in this HAM projects.
- Faisal Hawa:** Thank you so much.
- Moderator:** Thank you. We have next question from the line of Vibhor Singhal from PhillipCapital India Private Limited. Please go ahead.
- Vibhor Singhal:** Good afternoon Sir. Thanks for taking my question. Sir just in the HAM projects the financial closure that we have achieved in those projects also is the condition from the bankers that we have to put 50% equity upfront?
- S. Vaikuntanathan:** Yes and we have agreed also.
- Vibhor Singhal:** And we have agreed also, so Sir if I understand this Cube deal that 50% equity that we have put upfront will come from us as 51% share and the remaining 49% of the equity will be invested by Cube over the two, two-and-a-half years of construction period?
- S. Vaikuntanathan:** Correct.
- Vibhor Singhal:** Sir in your slide if I see what you have mentioned is that for Rs.145 Crores, we are going to receive almost Rs.280 Crores against at the time of COD right, Rs.260 Crores sorry?
- K. Venkatram Rao:** It is inclusive of both tranches, COD and COD plus two years, for entire our equity investment of in this project we will receive this money.
- Vibhor Singhal:** What I am trying to ask is that the number that you have mentioned that for Rs.145 Crores, we will receive around Rs.260 Crores, is this assuming some appreciation in value of the projects at the time of COD or is it, you gave a example that if Rs.100 Crores project is today becomes

Rs.120 Crores at the time of COD, so to come at this number have we assume that Rs.100 Crores will become Rs.120 Crores or this is committed by Cube and this can only go up?

- K. Venkatram Rao:** It all depends upon the completion.
- S. Vaikuntanathan:** Because we have made some assumption, so assumption we have made is based on some cost which may vary with the actual cost suppose - this inflation is there that is based on actual cost, how much inflation you are getting actually it is going to be reflected in the completion cost. So accordingly the price may undergo change to that extent.
- Vibhor Singhal:** So this price that we will get from Cube might go up also and might come down also slightly?
- S. Vaikuntanathan:** Yes, both way, if I assume some X percent of inflation, if I am getting more inflation then price will go up, if I am receiving less inflation then price may come down.
- Vibhor Singhal:** Sure Sir. Just last question from my side. You mentioned that you are expecting the appointed date for one project in this month itself and the remaining ones next month itself, so basically in Q1 of next year we should have all the four HAM projects working right?
- K. Venkatram Rao:** Yes we are expecting that.
- Vibhor Singhal:** So in that case what could be your topline that we are looking at for next year?
- K. Venkatram Rao:** Next year, we are looking somewhere between Rs.2,300 Crores to Rs.2,400 Crores.
- Vibhor Singhal:** Sure, Sir, great. Thanks for answering my question Sir. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sriram Kumar from Spark Capital. Please go ahead.
- Sriram Kumar:** Good afternoon Sir. I have a couple of questions, so in the Cube transaction part, is there any other liability that KNR has taken, I mean agreed for in the agreement,?
- S. Vaikuntanathan:** Any liability, what do you mean by that. We are transferring the full company to them. Debts everything will be taken over by them.
- Sriram Kumar:** Including O&M part?
- S. Vaikuntanathan:** Actually our responsibility is to complete the construction and give the COD to them actually, that is our primary responsibility.
- Sriram Kumar:** So Sir we will continue to be O&M contractor for the projects?

- S. Vaikuntanathan:** No, on COD date, we will hand over to them actually and they will run that project.
- Sriram Kumar:** Sure Sir, so in that case what is the IRR that KNR was getting and then what is the floor IRR for the Cube, for this transaction, any kind of details?
- S. Vaikuntanathan:** If we have to execute all these projects we are getting between 15 to 16% of IRR because now with the Cube transaction money is coming forward. In that case our IRR is not more than 15%.
- Sriram Kumar:** And for the Cube what would be the IRR after this transaction it would be around safe to say that..
- S. Vaikuntanathan:** Under this COD completion date, and depending upon that inflation and all there may be a fluctuation in the IRR also.
- Sriram Kumar:** Sure Sir, and in terms of bidding competitiveness since now only the regional players were participating so are we addressing that the bidding has come down or it is still higher because it is regional players participating.
- S. Vaikuntanathan:** In HAM, aggressiveness is not there. EPC aggressiveness is there but not in HAM.
- Sriram Kumar:** Sir, lastly on the book keeping questions what is the order book in KP Sagar and Yedula, irrigation joint venture projects?
- S. Vaikuntanathan:** In KP Sagar order book is Rs.148 Crores. For Yedula it is around Rs.18 Crores Sir and our JV with PSK, GVR is Rs.120 Crores.
- Sriram Kumar:** Okay Sir, and the final question would be in the coming week what is the size of the EPC project in the road segment that KNR is targeting to bid for?
- S. Vaikuntanathan:** It depends upon, there are ranges, we have bid for even Rs.1,000 Crores project, Rs.900 Crores project depending upon the area and then the project structure. There is no criteria like that but we expect is only that our EBITDA levels we should maintain and we should not go below our expected EBITDA line.
- Sriram Kumar:** Okay Sir, and what is the number of projects in terms of value, we have bid for till now?
- S. Vaikuntanathan:** See, now we have bid for some four HAM projects. Two, they have opened we could not get. Another two is still yet to be opened, maybe as we have explained we are expecting a total mix that of Rs.2,000 Crores consisting of one HAM and then mix of irrigation, flyover and EPC in roads.
- Sriram Kumar:** Sure Sir. Thanks.

Moderator: Thank you. We have next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Yes, Good Afternoon, Thanks for taking my question. Sir my question is with respect to this deal we have done with Cube. Basically how I understand this transition, I mean when you bid for the projects you target a certain IRR on this hybrid annuity projects. which I mean you tend to target almost 15%, 16% kind of number and when you are selling these to Cube they also would be a kind of looking at some kind of IRR I mean the floor IRR. Given the fact that you target similar kind of IRR across the projects and assuming Cube is also targeting similar IRR between the three projects why should my exit multiple be different for the three projects that we have done SPA for instance I mean your first project, your price to book multiple that you are getting is 1.5, second is 1.6, there is no significant difference between 1.5 and 1.6 but then the third one for Mallavaram it looks to almost of it 2.1 times so does it mean that we are assuming to finish this project ahead of schedule which is where you would be able get that kind of number what exactly explains the difference the price to book multiple that you have?

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K.Venkatram Yes because when we have made this working it is based on each project as they have different criteria like in Tirumala project it is the bitumen road project, in case our Trichy and Chidambaram project they are basically rigid pavement project, so their future cost, their O&M cost is different from this Tirumala project. That is why we have done this deal project to project it is not a composite deal, so we have reviewed the each project. We have seen the costing of each product. We have sat with them and arrived both EPC cost as well as future O&M cost and based on our discussion and negotiation, we have arrived at this value.

Prem Khurana: Is it fair to assume when you bid for these projects there were some difference between the IRR that you were supposed get for Trichy and IRR that you are supposed to have for Mallavaram?

K.Venkatram Project IRR will be the same, but costing is different because when it is flexible payment their major maintenance cost is different, in case of rigid payment their major maintenance cost will be different and their O&M cost will be different. Based on cost there will be differences and based on your free cash flow available to the company, based on major maintenance reserves and based on your DSRA calculation, based on that you will arise your future cash flow, on that basis this valuation has been arrived.

Prem Khurana: Sure I think I will take it offline, second question when this quarter other income seems to be on a higher side, what explains that significant jump in other income in this quarter?

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- K.Venkatram** This quarter what happened was some of the project liability which we need not required to pay. We have written it back to the extent of around Rs.11 Crores
- Prem Khurana:** And just last on this Cube transaction given the fact that we are comfortably strong on the balance sheet and we have yet another resources to able to meet this entire equity from our pocket so could there a situation where in you exceed your committed equity investments instead of putting in 51% you will investment more than 51% and then at the time of COD you try and adjust that number or your investment would get restricted at a 51% and compulsorily Cube would come in and make entire investing?
- S. Vaikuntanathan:** But that has not been envisaged as on date. As on date we have envisaged 51, 49, we are going by that assumption only as and when it comes we will see
- Prem Khurana:** Sure, Okay, Thank you.
- Moderator:** Thank you. We have next question from the line of Anupam Gupta from IIFL. Please go ahead.
- Anupam Gupta:** Sir on the Cube transaction, do you have a incentive which is built in if you complete it earlier than expected?
- S. Vaikuntanathan:** No whatever the bonus is there that is passed through, but definitely in the cube project whatever the EPC cost is there, EPC cost and its margin belongs to KNR and what are the bonus if you complete that is also bonus or claims that are all passed through.
- Anupam Gupta:** Okay so in this case like 3% bonus if you complete 100 days early it will come to you and as you said there is no O&M liability on you after COD right?
- S. Vaikuntanathan:** Yes.
- Anupam Gupta:** Okay, I understand. Thanks a lot.
- Moderator:** Thank you. We have next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Revenue from Kerala bypass toll and Bihar toll this year is too much 20% in Kerala inspite of flood or very good pickup in Muzaffar Nagar so are we planning to sale for asset like model?
- S. Vaikuntanathan:** Yes, we want to wait for a minimum of 1 and 1-1/2 years in Kerala, the toll is expected to go up so that we will get a better valuation, In the case of Muzaffarpur, we are waiting for certain clarification from NHAI because they have announced it may be considered under Bharatmala

- for four laning. If at all there we may have to wait for the guidelines and after the guidelines then we may proceed.
- Ravi Naredi:** Some of the claims which are pending with NHAI, are we hearing anything from them?
- S. Vaikuntanathan:** Yes, we have lot of progress there in receiving the awards. Recently, we have got award of our share more than Rs.500 Crores.
- Ravi Naredi:** And when it will come to us
- S. Vaikuntanathan:** For this award, the NHAI will go to court maybe they may put it in the Delhi High Court and one or two benches and then finally when the court orders them to pay the full amount then they will get it. That will take at least three to four years.
- Ravi Naredi:** Any amount is pending in the court has which we are going to receive soon if the court, gave decision in our favor.
- S. Vaikuntanathan:** One of the claim is pending which is around Rs. 9 Crores in one of the JV, that is Patel KNR JV that we are expecting in next 15 to 20 days.
- Ravi Naredi:** Thank you Sir.
- S. Vaikuntanathan:** Thank you. We have next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.
- Jiten Parmar:** Yes, my question is what is total consolidated debt?
- S. Vaikuntanathan:** Total consolidated basis Rs.718 Crores Sir?
- Jiten Parmar:** And with that Cube transaction, how much will it come down to.
- S. Vaikuntanathan:** It would not come, it is a debt. Debt will be there in SPV only.
- Jiten Parmar:** So it will be in equity okay. Now this employee cost and raw material cost have gone up by 16% and 30% what was the reason for this, is it mobilizing or...?
- S. Vaikuntanathan:** Basically this year we are doing more projects on our own, we are not doing more subcontracting compared to the last year. That is why when you do your more project on your execution, you material cost will be increased. So same way because we have got this four new HAM projects. For that we have recruited employee.
- Jiten Parmar:** Okay now you have guided for about Rs. 2,300 to Rs. 2,400 for next year, what are the EBITDA margins you are guiding for?

S. Vaikuntanathan: we expect this because more turnover will come from the HAM project and we are expecting EBITDA around 14 to 15% .

Jiten Parmar: Okay. That is all.

Moderator: Thank you Sir. We have next question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Yes, first of all congratulations on signing deal with Cube Highway at attractive valuation. Sir most of the questions have been answered. Coming to first on the order inflow. So order inflow in this February and March are we targeting any order inflow?

K.Venkatram We have tendered some HAM projects. Two they have opened we could not get, another two they are yet to open.

Shravan Shah: What is the value of that two which has not opened?

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K.Venkatram May be Rs.950 or Rs.1000 Crores.

Shravan Shah: Okay, so any other EPC that we have bid and not opened.

S. Vaikuntanathan: No, no whatever we have bid, we have opened already and some more are in the pipeline but not immediately, but may be another one or two months it will take

Shravan Shah: But in case of the EPC are we planning to bid for may be Rs.3,000 Crores, Rs.4000 Crores in next 15 or 20 days?

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K.Venkatram Not immediately may be in the next two months there are certain EPC bids which are coming.

Shravan Shah: Okay, and Sir FY2019 revenue that are on the conservative side whatever we are saying 5% lower than the last year so how much revenue are we expecting from the HAM projects, one already we have received appointed date. Two we are expecting 10 to 15 days and we must be already mobilized, so would not it be fair to assume that close to Rs.150 Crores kind of a revenue can from all the three HAM projects.

K.Venkatram It may touch around Rs.150 Crores.

- Shravan Shah:** Sir particularly on the depreciation side, so it is definitely this time also because of the irrigation it is higher so Q4 it is also fair to assume it would remain in the same range of Rs.45 Crores?
- S. Vaikuntanathan:** It will be in the same range because the depreciation is a fixed cost whether you will use or not, it will be in the same range
- Shravan Shah:** From the first quarter will it come down because now the irrigation project mostly would be over by March?
- K.Venkatram** Once irrigation project is over and we will move this machinery to other project and at that time depreciation will be reduced.
- Shravan Shah:** So quarterly run rate will come to around Rs.25 Crores to Rs.30 Crores?
- K.Venkatram** It will be around 35-40 Crores plus.
- Shravan Shah:** Okay despite irrigation will be coming down the depreciation quarterly would remain in the Rs.35 to Rs.40 Crores range only?
- K.Venkatram** Because we will make addition. This year we are buying around Rs. 200 Crores of the asset that depreciation will come in next year.
- Shravan Shah:** Okay, okay and in terms of the tax rate for this full year would remain because last time we guided 10%. So this year and next year our tax rate would be?
- K.Venkatram** For nine months it is 9.6% but if you see effective tax rate without deferred tax it is coming to 20%, if you see effective tax may touch around 11% to 12%.
- Shravan Shah:** So this nine month 9.6% can go to 11% you are saying and sir next year?
- S. Vaikuntanathan:** Next year, it may go up to around 15%.
- Shravan Shah:** Okay 15%. Thank you.
- Moderator:** Thank you. We have next question from the line of Amber Singhania from AMSEC. Please go ahead.

- Amber Singhania:** Thanks for taking my question and congratulations from the Cube deal, I just wanted to understand what are the EPC value for all these five HAM projects individually if you can share Sir, which will add to their order book?
- S. Vaikuntanathan:** This EPC value for this four projects is Rs.3,140 Crores Sir.
- Amber Singhania:** Sir if you can share individual projects, all projects?
- S. Vaikuntanathan:** For our Trichy Projects, Sangram project it is Rs.745 Crores, for Chidambaram it is Rs.350 Crores, for Tirumala it is Rs.1,190 Crores, for Sangareddy it is Rs.853 Crores and Magadi it is around Rs.900 Crores., so these are excluding GST.
- Amber Singhania:** Thanks, secondly Sir you mentioned that there was around Rs.13,000 to 14,000 Crores worth of irrigation project which have planned pre-election and what is the status of that now and are you seeing that coming in this quarter and next quarter somewhere, are we looking to bid for that?
- S. Vaikuntanathan:** As this is the election period, if at all is there I think it should come after June, May, June, but they are planning certain irrigation projects which they may take it going ahead
- Amber Singhania:** Sir just my question is you guided around 5% below turnover for FY2019 that works out to be roughly Rs.300 Crores in Q4 versus Rs.600 Crores last year. Sir don't you think that is too conservative target given the Rs.1,500 Crores of order book and Rs.150 Crores coming from the new HAM projects as a revenue in Q4?
- S. Vaikuntanathan:** The appointed date for the HAM project one we got it, another two we are expecting within next 10 days. Suppose let us assume if it gets delayed by another week or so, so what happened you cannot take any revenue on that, progress on that and the last one we are expecting by next should come, so taking all these things into account, we are taking very conservatively. Right from the beginning we are telling the same thing. If our appointment date gets extended then the achievement of the revenue also will be slightly reduced, so we have taken conservative figure.
- Amber Singhania:** Fine Sir. That is all from my side. Thanks you.
- Moderator:** Thank you. We have next question from the line of Surabhi Bomb from Ambit Capital. Please go ahead.
- Surabhi Bomb:** Sir just one question, the variation in the EBITDA margin in Q3 of FY2018 versus now so the differences on account of the irrigation project mix or is there any other reason?
- S. Vaikuntanathan:** It is almost same now, this year around 20% and last year this is also in the same range.
- Surabhi Bomb:** On the standalone margins, for Q3 FY2018 it was 22.7 and this quarter it was 20.1%.

- S. Vaikuntanathan:** Last year actually in this quarter we have received the arbitration claim of around Rs.16 Crores in our two of the joint venture so that is why it is the higher.
- Surabhi Bomb:** Alright and Sir my second question would be that from the tender perspective form NHAI and MoRTH. So are seeing the HAM momentum continue or are you seeing a pickup now in EPC tenders awarded.
- S. Vaikuntanathan:** Regarding HAM they have identified a lot of HAM projects. We are just waiting for the lenders get also the same mood of participating in this. We hope that I think slowly it is getting into line. It may take some more time but lot of HAM projects are being planned.
- Surabhi Bomb:** And are margins any different in EPC versus HAM model like on an EBITDA level for KNR?
- S. Vaikuntanathan:** Yes definitely because in the HAM project it will be little more comfortable, i so the EBITDA is comparatively more to our EPC project
- Surabhi Bomb:** Okay thank you Sir.
- Moderator:** Thank you. We have next question from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Yes, Good Evening Sir. In terms of the Cube Highways deal again have we offered any guaranteed return in case for whatever reason the deal does not go through, let us say if we are not able to complete the deal, Cube has invested its share of 49%, but later we are not able complete the deal, is there any guaranteed exit that we are liable to give them?
- S. Vaikuntanathan:** If we do not complete in time then there would not be any guaranteed return.
- Ashish Shah:** Okay so but then how do they exit Sir, if suppose for whatever reason?
- S. Vaikuntanathan:** No, no there is one thing suppose we do not complete, then, there are sudden provisions which is there. Actually Sir whatever the investment they are making on that we have to pay 12.5% interest on that. So when this deal is not going through it on the COD date we have to payback that money along with this interest to them..
- Ashish Shah:** So 12.5% is what needs to be paid if on the amount invested by them and when we say that what is the quantum of money that we are going to receive at COD and after COD, is that excluding the interest then?
- S. Vaikuntanathan:** Yes whatever the valuation showed it is excluding that interest.

- Ashish Shah:** Right. Sir also if there is any other condition for them for investment, if there is anything that you can highlight I mean apart from the fact that you would be undertaking...?
- S. Vaikuntanathan:** So their condition is that once this 90% claim ROW is available they have to put the money and first we have to put the entire money. These are the two basic conditions that we have to fulfill, after this they we will start putting their money.
- Ashish Shah:** Sure. Okay Sir, Thank you.
- Moderator:** Thank you. We have next question from the line of Parvez Akhtar from Edelweiss Financial Services. Please go ahead.
- Parvez Akhtar:** Sir Just one question from my side since we have to put the equity money upfront, we expect all of it for a four HAM projects to be infused in Q4 or will part of it go to Q1 also?
- S. Vaikuntanathan:** Sir definitely this is based on appointed date. We have got appointed date of one project Tirumala. So definitely for that we have to put that money. For other two projects also Chidambaram and this Trichy we are expecting this month end. So our view is that at least for three project we have to put the money in this year and may be Shankarampet due to forest clearance it may go by next month end for that we may require to put money may be in Q1 of the next year.
- Parvez Akhtar:** Thanks. That is it from my Side.
- Moderator:** Thank you Sir. We have next question from the line of Pritha Sharma from HDFC Securities. Please go ahead.
- Pritha Sharma:** Yes Sir, congratulation on the numbers just a few question, so the standalone debt as on December 31, 2018 is Rs. 240 Crores, like you have mentioned after which the promoter loan itself is Rs.218 Crores, the balance is all equipment finance?
- S. Vaikuntanathan:** It is all equipment finance.
- Pritha Sharma:** No working capital outstanding, No short-term borrowings outstanding as on December 31, 2018
- S. Vaikuntanathan:** Yes, working capital is around Rs.10 Crores and HP loan is Rs.21 Crores and promoter debt is Rs.218 Crores so put together Rs.250 Crores is there.
- Pritha Sharma:** Rs. 250 Crores and Sir for the nine month Rs.1,400 Crores revenue, could you just give me a breakup of the ririgation under EPC revenues?
- S. Vaikuntanathan:** Yes you want in nine months or this quarter?

- Pritha Sharma:** I want for nine months Sir for the Rs.1400 just to understand the EBITDA margins that is there on the EPC portion?
- S. Vaikuntanathan:** Okay, for this actually when a project wise it is around 35% is in the irrigation sector and balance in the road sector.
- Pritha Sharma:** Sir on the Cube deal, there will be a similar deal which will happening for the Telengana project also right that Ravanapalli?
- S. Vaikuntanathan:** Yes similar lines.
- Pritha Sharma:** That will be all Sir. Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Alok Deora from Yes Securities. Please go ahead.
- Alok Deora:** Sir congratulations on a good set of numbers. , Just one question I had. So what would be our strategy on the HAM projects now, so whatever HAM projects we would be bidding we would be sort of looking to exit the HAM part of it and do the EPC portion on is it just for three to four projects we have got into such deal?
- S. Vaikuntanathan:** Actually our intention is that we should asset light. So definitely if future HAM is also we are bidding we will take into consideration what are the deal with the Cube and Cube has also shown interest to take further projects. So definitely we will look forward
- Alok Deora:** Okay, we have not got into any sort of long term agreement like, it would be on a project to project basis and so how it pans out?
- S. Vaikuntanathan:** Yes, correct, correct it is based on project to project basis.
- Alok Deora:** Okay and any sort of valuations also we have kept in mind as to below this base valuation we would not be going or it would be again sort of how the situation is at that point of time because say for sometimes, the valuation there is a mismatch so or we okay to carry the HAM project till the life of the business model?
- S. Vaikuntanathan:** We are bidding these projects, becausegenerally in the HAM project we are bidding around between 15% to 16% of IRR definitely in that case their valuation will be definitely good. So even during Cube deal due diligence also there was not much variation what we have quoted and what we have completed in this deal, definitely valuation is not going to become issue for us and we will take it project to project only.
- Alok Deora:** Sir just one last question, you actually mentioned that you would be sort of bidding for EPC projects after a couple of months say after next month or March or April but we are also looking

at lot of projects being bidded out by NHAI in February itself. So are we looking to aggressively part as bid in those projects because after feb we might see a case where due to elections we do not see too many projects coming out from NHAI side.

S. Vaikuntanathan: We also see those projects so we also take into consideration the logistic pattern and the availability of the material and other thing and the cost of the project

Alok Deora: Right but for February we are not looking for active sort of bidding?

S. Vaikuntanathan: Our tender department will come out as they go for site survey and other thing and report will be submitted to the tender head. Then we will take a call on that so the process is on with the tender department.

Alok Deora: Okay. Thank You and all the best Sir.

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

S. Vaikuntanathan: Thank you everyone for your participation in our earnings call. In case of further queries you may get in touch with Strategic Growth Advisors, our investor relations advisor or please feel free to get in touch with us. Thank you very much.

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