



“KNR Constructions Limited Q1 FY18 Earnings Conference Call”

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LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q1 FY18 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan, VP (Finance), KNR Constructions Limited. Thank you and over to you, sir.

S. Vaikuntanathan: Good afternoon, friends. I welcome you all on our earnings call for the quarter ended 30th June 2017. Along with me I have Mr. K. Jalandhar Reddy - Executive Director; Mr. K. Venkatram Rao - General Manager (Finance and Accounts) and Strategic Growth Advisors, our Investor Relations Advisors. I will start by giving you a brief of the current scenario for the road and highway sector and then I will give you an update on the company's performance.

The road sector presents an enormous opportunity as the government has set an ambitious target of awarding 50,000 KMs of highway projects worth Rs. 5 lakhs crores in the next two years, surpassing the cumulative road length awarded in the last 5 years.

The government has envisaged to increase the existing national highway network of 1.15 lakhs KM in the country to 2 lakhs KM. This will require an estimated fund of about Rs. 6.92 lakhs crores for the development of national highways in the country during the next 5 years. This requirement will be met from the ground budgetary support of the ministry, the central road fund, toll remittance, monetization of national highways through toll-operate-transfer, (TOT) model, external borrowings by national highway authority of India and private sector investment. NHAI has recently raised Rs. 3,000 crores by selling the rupee-denominated masala bond and sold to 30-year bond worth approximately Rs. 5,000 crores to LIC.

The ministry of road transport and highways have done comprehensive and scientific study of traffic flow across the country and identified 44 economic corridors of aggregate of 26,200 KM for development or improvement under Bharatmala Pariyojana. Under phase I of Bharatmala Pariyojana, it is proposed to develop 9,000 KMs of economic corridors. NHAI has awarded or are in the process of awarding 30 consultancy packages for preparation of DPR of about 9,300 KM road included in Bharatmala Pariyojana comprising economic corridor, inter corridor, feeder routes and coastal roads. Further, MoRTH has identified 208 level crossings on national highways for construction of RoB under Setu Bharatam scheme and feasibility study of 87 RoB projects has been completed so far.

In financial year FY17, the government could only construct 8,231 KM of roads, that is 22.5 KM per day vis-à-vis the target of 15,000 KM that is 41 KM per day. In FY18, the government

has kept the same target to construct 15,000 KM that is 41 KM per day. National highway authorities of India, NHAI has been asked to execute 8,000 KM of highways for the current fiscal while the rest would be done by ministry with support from state public work department, (PWD) and NHIDCL. Further, the government and Pradhan Mantri Gram Sadak Yojana aims to construct 50,000 KM with an aggregate of completing 156 KM per day in FY18 against 130 KM per day during FY17.

The overall pace of construction has already seen an improvement in Q1 of FY18 with an average construction of 25.21 KM per day compared to 22.55 KM per day in FY17. However, the awarding activity in Q1 FY18 has remained subdued due to stricter land acquisition criteria. The authorities are not awarding the projects unless 90% of the land is available for construction. However, we expect the awarding activities to witness improvement for the rest of the financial year as land acquisition have been fast tracked by the government.

The focus on HAM project by the authorities is evident from the fact that in FY17 NHAI has awarded more than 55% of the projects under HAM, 35% under EPC and 10% under BOT toll. Large number of HAM projects are expected to come for bidding in the coming quarter which re-enforces the focus on HAM model.

Now coming to the company:

Update on BOT projects -

We have already received the final completion certificate for 100% project length of our toll based Walayar-Vadakkancherry project on 31st October 2015. The total debt of the project is Rs. 207.5 crores as on 30th June 2017. During FY17, the promoter that is KNR Construction Limited has infused Rs. 261.50 crores which has been used by SPV to pay-off debt thereby reducing the interest burden on the project. And toll collection is around Rs. 13 lakhs per day which will take care of the principal, interest and O&M payments.

In respect of project in Bihar, i.e. Muzaffarpur-Barauni Project. The project is on Toll basis and we hold 51% stake in the project. We have invested Rs. 52 crores in the project and have received 75% PCOD on June 3rd, 2016 and toll collection has been started from June 9th, 2016. We are receiving toll of around Rs. 12.5 lakhs per day based on 75% PCOD. We expect the final COD by the end of this month.

Order book details –

Our order book as on 30th June 2017 is Rs. 3,338.8 crores consisting of road 85%, irrigation 15% and which is mainly from NHAI is 55%, state project 37% and international order 6%. To improve our execution outlook further, we continue to bid for projects and expect to win projects worth Rs. 2,000-2,500 crores in the next 9 months. Now I request Mr. K. Venkatram Rao, GM, to present the result for the quarter ended 30th June 2017.

K. Venkatram Rao: I believe you must have had an opportunity to see our results in our presentation that we have circulated and uploaded on our website. Now I would present the result of quarter ended 30th June 2017. The total revenue on a standalone basis is Rs. 480.7 crores in Q1 FY18 as against Rs. 303.20 crores during the same period in the last financial year, a growth of 59%. The total revenue includes Rs. 16.8 crores from the claims received by the two joint venture entity that is Patel-KNR joint venture and KNR-Patel joint venture.

Our standalone EBITDA for Q1 FY18 is Rs. 84.50 crores as against Rs.43.70 crores during the same period in the last financial year, a growth of 93%. EBITDA margin stood at 17.60% for Q1 FY18 as against 14.40% in the Q1 FY17. Our standalone profit after tax for Q1 FY18 has been at Rs. 67.60 crores as against Rs. 30.20 crores during the same period in the last financial year, a growth of 124%. Net profit margin stood at 14.1% for the Q1 FY18 as against 10% in Q1 FY17.

Now I will share with you a few number from the balance sheet as on June 30th 2017. As on 30th June 2017, the debt on standalone basis is Rs. 141 crores including promoter loan of Rs. 120 crores. And the net working capital days is 40 days. On the consolidated basis the debt is Rs. 690 crores.

With this we now open the floor for question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Sir, the claims which you said about Rs. 16.81 crores, the full contribution must have gone to the EBITDA?

K. Venkatram Rao: Yes sir, completely because this is a share of profit in the joint venture.

Nitin Arora: And the second thing, wanted to know on the other income which is almost 18% of your PBT this quarter. So what is this attributed to?

K. Venkatram Rao: Actually we have received income tax refund of around Rs. 37 crores. On that we got around Rs. 7 crores interest. So that is why it has contributed more. This is a one-time item .

Nitin Arora: Got it. Last two questions from my side. Again we are seeing Hubli-Hospet not moving, can you tell us what is the status now and when we are looking to start executing this?

K. Jalandhar Reddy: Hubli-Hospet, because of some tree cutting problems, it was delayed, but during March, we have taken the appointed date. So we will be starting soon. And I think we have almost done around Rs.30 crores worth of progress in that and its continuing. Now it is taken off and things will move further.

- Nitin Arora:** Okay. We have seen that towards July end Telangana announced the tenders close to Rs. 10,000 crores in new irrigation which is basically Kaleshwaram project. Just wanted to know the status how we are getting into a bid position over here and is there a restriction that one player can bid for two projects and if you can throw some light on the working capital, how is the advances and what is the execution timeline?
- K. Jalandhar Reddy:** We had participated in 2 to 3 bids and hopefully we will get one that is what we are thinking, but anyhow they haven't opened the financial bid, so it is too early to say anything on that, but however we have submitted our bids.
- Nitin Arora:** But they are giving the advances now? I mean is it the interest fee or it is the normal, the tender based 18%.
- K. Jalandhar Reddy:** No, there is no advance. But they are giving timely payments.
- Nitin Arora:** Okay. And sir have we bid for a project from Ahmedabad to Rajkot, just want to know that, the 5 packages one?
- K. Jalandhar Reddy:** No. we have not bided for that.
- Moderator:** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, my question is mainly on looking at this first quarter performance. Are we revising our revenue guidance what we last time gave of Rs. 1,700-1,800 crores for FY18 because even if I assume a 0% growth in next 3 quarters then also the FY18 topline would be around Rs. 1,720 crores?
- K. Jalandhar Reddy:** Sir actually, the second quarter is supposed to be in rainy season. So we expect little less figures in the second quarter. Even the third quarter partially is also under rainy season because the works are in Tamil Nadu area. So some sort of decline would be seen in two quarters and then last quarter will be the fine performing one. So we are not revising anything. New orders are added in 1-2 months and then we will try to do.
- Shravan Shah:** And sir what would be the value of this Tamil Nadu irrigation projects, 2-3 bids that we bided?
- K. Jalandhar Reddy:** Not Tamil Nadu sir, this is Telangana. It is about Rs. 1,000 crores – Rs. 1,500 crores like that. But our share would be around Rs.500-600 crores.
- Shravan Shah:** And sir we have mentioned in our presentation that now we are looking at to expand into elevated Metro and rail projects. So we are just trying to understand how we will go ahead. Can we see any bid to be submitted by us in next 7-9 months and are we going alone or any joint venture partner and what kind of size of projects are we looking at?

- K. Jalandhar Reddy:** Sir actually elevated metro we can focus on because we are doing one flyover in Salem Tamil Nadu. So once that gets completed, it will open the gates for us to directly go into elevated metros also. So as such we may require some partner for the electro mechanical works which are thinking. So that much partnership we will take into account.
- Shravan Shah:** But in next 9 months can we see any bid in the elevated metro or Rail projects?
- K. Jalandhar Reddy:** No. We are planning. If anything comes up we will let you know. Right now we are planning.
- Shravan Shah:** And sir I needed some data points from Rao sir. I wanted an outstanding order book of Arcot Villupuram, Bangladesh order and two Tamil Nadu, Malai Puram, Rasipuram, and Kanchipuram orders?
- K. Venkatram Rao:** The outstanding order book of Kanchipuram is Rs.49.7 crores.
- Shravan Shah:** And Malai Puram or Rasipuram?
- K. Venkatram Rao:** Arcot Villupuram, it is Rs. 140 crores.
- Shravan Shah:** Arcot Villupuram?
- K. Venkatram Rao:** Arcot Villupuram is Rs. 140 crores and Rasipuram it is Rs. 82 crores.
- Shravan Shah:** And Bangladesh?
- K. Venkatram Rao:** It still is the same only around Rs. 222 crores.
- Shravan Shah:** And sir lastly on the tax rate, will it remain same that we guided last time, kind of 8% in FY18 and 20% in FY19?
- K. Venkatram Rao:** Yes. It will be in the same range.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** Sir, my question was again a bit on the order book and the way going forward, At the current point of time, at Rs. 3,300 crores of order book looks a little on the weaker side for the growth that we can expect for the next couple of years. So I know it is a matter of time that we get those orders. Apart from those Telangana orders that you mentioned in which your share is around Rs. 500 crores, how would you expect the order accrual to occur in the next few months or quarter. And also a related question to that is on the HAM projects. So I think earlier we were not comfortable with the aggressive bidding which was happening in HAM projects and slowly I think you mentioned that we were coming to terms with the project cost but still

not yet with the O&M cost. So what is our view on that now and are we still seeing those aggressive bids, which might keep us out from that segment?

K. Jalandhar Reddy: Actually we are planning around Rs.2,000 to 2,500 crores to be added this year. So the planning is well placed here. We have been studying few projects and those bids will likely to come up in few months and if you look at the HAM projects, no doubt they were aggressive earlier, but nowadays the number of bidders on HAM are very less and the works that are going to come up in HAM are going to be very large in number. Around 80 projects are supposed to be bided in coming 4-5 months.

Vibhor Singhal: On HAM?

K. Jalandhar Reddy: On HAM. So we are now focusing seriously on HAM bids and we have seen in the past data that slowly it is becoming less competitive and the bids are going to be in a sensible manner. So definitely we expect some good order flow from HAM. So now we are looking very positive towards HAM also because margins are also a little more.

Vibhor Singhal: Fair enough. So sir out of the Rs. 2,000 to 2,500 crores of order book intake that you are expecting or targeting this year, what would be the rough break up let us say, I mean let us say around Rs.1,500 crores from HAM?

K. Jalandhar Reddy: Yes, roughly.

Vibhor Singhal: Okay. And the remaining from let us say irrigation or other state or EPC projects?

K. Jalandhar Reddy: Irrigation and EPC projects in roads and bridges.

Vibhor Singhal: Sure sir. That is really helpful. And sir, my second question is basically on the BOT project that we have. I think the Walayar project is now kind of stabilized with the equity infusion. At this point of time, are we still making any cash losses in the Barauni project, if it has been when do you expect them to basically stem down and the project to breakeven?

S. Vaikuntanathan: For the Barauni project, recently we have approached the bankers in the consortium meeting and requested the bankers to reduce the interest rate to 8.5% as almost 100% completion of the project will come anytime now. We hope that they may reduce it to 8.75% at least. With this there will be a cash surplus of around Rs. 10 to 10.5 crores per annum, which will take care of the project. The project has now attained viability.

Vibhor Singhal: Okay. Right now we are not making any cash flows in the project even at the current interest?

S. Vaikuntanathan: We have 75% PCOD in the project. Now we are going towards 100% and with interest reduction the project is becoming positive.

- Vibhor Singhal:** So beyond that you wouldn't need to infuse any more equity or any other measures.
- S. Vaikuntanathan:** No.
- Vibhor Singhal:** And the strategy for these two BOT projects would be that if we find a buyer, we want to sell our stake as soon as possible or we would want to hold on to them for sometime, stabilize the cash flows and then go for an outright sale?
- S. Vaikuntanathan:** In Walayar, the bankers have agreed to reduce the interest rate to from 9.5% to 8.5%. Now it is becoming viable and there is a cash generation which is sufficient to meet all the interest, principal and O&M payments. So we will wait for some more time because the toll revenues are yet to go up because the nearby structures are not yet completed. There is no burden on the promoter to infuse additional money on this project.
- Vibhor Singhal:** Fine, So sir last update on the Walayar project, if I am not wrong, I think there are two stretches one ahead and one just before our stretch. One was being done by IVRCL and the other was I think by Essel Group. So what is the update on those two projects or how close or far are they from completion if you have any idea?
- S. Vaikuntanathan:** There is a tunnel in highway which they have to complete.. That may take maybe 1-1.5 years. The other end is getting completed.
- Vibhor Singhal:** That would be on the Chengapalli-Walayar by IVRCL here or the other one?
- S. Vaikuntanathan:** Yes, the same. That I think is almost getting completed.
- Vibhor Singhal:** Just a tunnel is left, okay.
- Moderator:** Thank you. The next question is from the line of Nitin Dharmavat from AND Enterprises. Please go ahead.
- Nitin Dharmavat:** I have a question related to the order book. The order book that I see in the last quarter was around Rs. 3,800 crores which has come down to Rs. 3,300 crores. So wanted to know what is the size of orders in which we are L1 right now. So if you can give me some idea about it?
- S. Vaikuntanathan:** We have just bid for the project. The results are yet to come.
- Nitin Dharmavat:** Okay, got it. And how is the execution going on because last quarter as I understand the execution was going on in full swing, is it the same speed with which we are going on or there is any delay in any of the big project that we are having?
- K. Venkatram Rao:** No, in all the projects the execution is going on in a good pace. There is no delay because whatever the delays are there that we already taken into account and we have already applied

for the extension of time. So for this quarter all projects are executing in very good pace and it is moving in the right direction.

Moderator: Thank you. We have the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir, at the time of demonetization free toll was given by government, so have we received any compensation from them?

K. Venkatram Rao: For these two projects, Muzaffarpur-Barauni and Walayar, in Muzaffarpur-Barauni we got around Rs. 1 crore each as compensation.

Ravi Naredi: And whatever we have claimed we received the same amount?

K. Venkatram Rao: Only 50% of the interest we have got. And same in the case of Walayar also.

Ravi Naredi: Sir, any more projects we are going to sell as we sold 2 project, anymore project are going to sell in future?

S. Vaikuntanathan: We are analyzing various option. Walayar we will be taking some more time. So the valuation will go up. And in the case of Muzaffarpur also we are exploring the possibility since the toll revenue is going up and interest reduction by the lender, So it is a good case for trying.

Ravi Naredi: And sir what is our share of the two project we sold, we received the amount?

S. Vaikuntanathan: All the CPs have been completed and NHAI clearance is awaited.

Ravi Naredi: So in the last con-call, 3 months ago also we gave the same comment, no progress at all?

S. Vaikuntanathan: The clearance is taking some time.

Ravi Naredi: So how much time we can assume for this?

S. Vaikuntanathan: Maybe in the next two months it should be completed.

Ravi Naredi: And sir what is the topline plan for FY18 and FY19, any guidance for topline?

S. Vaikuntanathan: Already it has been given around Rs. 1,700 to 1,750 for top-line guidance.

Ravi Naredi: Sir it will be very less because you have already cleared more than Rs. 480 crores in the first quarter. So still you are holding that only?

- K. Venkatram Rao:** As our ED has already told because there might be some lower execution in Q2 and Q3 due to the rain in this part of the country but overall definitely what we are telling we will achieve that.
- Ravi Naredi:** Definitely, whatever you give, you always achieve in time or you achieve 10-20% more. For FY19 you are giving any plan?
- S. Vaikuntanathan:** FY19 also you can add another 10%-15%.
- K. Venkatram Rao:** May be around Rs. 2,000 crores.
- Ravi Naredi:** Sir, whenever we travel, all over the construction work is going on either on road or on the bridge and you are so pessimistic about the orders, what is the reason sir?
- K. Venkatram Rao:** Actually we want to give only positive surprises to you. That is what we believe in.
- Moderator:** Thank you. We have the next question from the line of Mohit Hans from Esta Capital. Please go ahead.
- Mohit Hans:** Sir the question regarding Muzaffarpur–Barauni toll way. What kind of toll collection can we expect going forward?
- S. Vaikuntanathan:** See, now it is around Rs. 12-12.5 lakhs per day. And some rain is happening on that side, so toll collection during that period normally is less, but average it is 12-12.5 for 75% PCOD. And once the 100% PCOD is received we hope that we should at least touch Rs.15 lakhs to 16 lakhs per day.
- Mohit Hans:** So maybe a 25% increase this quarter?
- S. Vaikuntanathan:** That is right.
- Mohit Hans:** Okay and sir one more question. This quarter we had an order book of Rs. 3,338 crores, right?
- S. Vaikuntanathan:** Yes.
- Mohit Hans:** So how much of that was irrigation, 15% I guess?
- S. Vaikuntanathan:** Yes, 15%.
- Mohit Hans:** Okay. So we are expecting the same thing in the coming quarters.
- K. Venkatram Rao:** It will be based on the execution. If we add some irrigation projects in the quarter, so it will change a little bit.

- Mohit Hans:** So are you looking at some irrigation projects in the coming quarter?
- K. Venkatram Rao:** Yes, we are looking some irrigation.
- Mohit Hans:** So the next quarter the irrigation numbers should go up, right?
- K. Venkatram Rao:** Yes.
- Moderator:** Thank you. We have the next question from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Sir, can you share if there were any one-offs in the EBITDA margin this quarter or probably did we do more final layer work this quarter because of which the margin was higher?
- K. Venkatram Rao:** Already we have told that around Rs.16.8 crores of the claims in the two joint venture entities that we have got, one in the Patel-KNR JV, we have completed that project in 2003 and we have gone for arbitration and the arbitration award we received of around Rs. 22 crores and one more joint venture that is KNR-Patel JV that is Nellore to Kavali project, on that we got Rs. 19 crores. So around Rs. 40 crores of a claim in these two joint venture entities we have got. So out of that our share of profit, after expense has come to in financials of KNR that is amounting to Rs. 16.8 crores. That has totally contributed to the EBITDA. As well as PBT and PAT also because what are the share of profit we have received that is a tax free in the hand of recipients. So Rs. 16.8 has added in the PBT as well as PAT.
- Devam Modi:** And with regards to the pipeline that you mentioned, are we also bidding for any project in KSHIP Program?
- K. Venkatram Rao:** Yes. We are working on that also.
- Devam Modi:** And what will be the pipeline on the KSHIP front, in terms of how many projects are roughly and what size of opportunity?
- K. Venkatram Rao:** The size of each project there is around Rs. 800 crores and there are 3 such projects totaling to around Rs. 2,500 crores.
- S. Vaikuntanathan:** So now 3 and another 3 are coming. So we have got some plan there because it is ADB funded and we are definitely looking at it.
- Devam Modi:** And this would be annuity project or cash contracts?
- K. Venkatram Rao:** HAM, hybrid annuity.
- Devam Modi:** And if you could just highlight the daily profit in Walayar right now and would be the outlook going ahead over there?

- S. Vaikuntanathan:** Walayar, the traffic should go up because we are at around Rs. 12 to 13 lakhs per day of toll revenues and with one side of work getting completed the traffic should increase and also now the dismantling of check post also will improve the traffic further and we hope that it should do well. But the only thing is if both the sides are completed the volume will go up and then with low debt and interest burden the value will go up substantially in the next 2-3 years.
- Devam Modi:** And sir what will be the current outstanding debt on both projects in Walayar as well as Barauni?
- S. Vaikuntanathan:** Walayar is around Rs.207 crores outstanding and Muzaffarpur around Rs. 314 crores.
- Devam Modi:** Sure sir and finally if you could just tell us what would be the impact of GST on margins and working capital?
- S. Vaikuntanathan:** See, as on date whatever projects we have, we will get GST reimbursed by government because of change in law, that is very certain and going forward normally the effect should be around 12% and at the time of bidding we should add it in the bidding.
- Devam Modi:** So you would hold that it should not have any impact on margin. I mean there should be a pass through because of change of law. There could only be some sort of cash flow impact in the near term.
- K. Venkatram Rao:** Based on present GST rate of 12% we have worked out still 5%-6% outflow is there, but as you know present contracts have the change of law clause. So on that it will come back to us, but when it will come, that is the question and that is why some working capital requirement will be there for these projects and we are still working with our Federation NHBF to reduce further GST. But government has decreased from 18% to 12% only. But overall we are seeing that definitely there will be some working capital gap due to GST, but that is going to be reimbursed by the client in a later stage.
- Moderator:** Thank you. We have the next question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** Outside Telanana and AP which are the major projects where we are looking to bid for?
- Venkatram Rao:** We are looking for HAM project in some part of Karnataka, Kerala and definitely we mentioned about the irrigation projects. So we are working on that. We are expecting that we will shortly receive the irrigation project and as far as HAM is concerned we are working for this in KSHIP project. Definitely we are working towards the southern parts only because lot of projects are coming in this part. We are hopeful that we will get projects in Karnataka, Kerala and that part of the country.

- Parkishit Kandpal:** Sir specifically asking about the Mumbai Nagpur Expressway and the UP Expressway, the new one?
- Venkatram Rao:** UP expressway we are not interested to do, but Nagpur Mumbai expressway we may go for it with some JV.
- Parkishit Kandpal:** Sir, any specific reason like UP lot of projects coming up. So any specific reason why you want to stay away from UP?
- S. Vaikuntanathan:** Our internal planning is we should get around Rs. 2,500 worth of orders this year. Maybe next year we can add another 10%. The growth should be steady and slow. The company prefers slow and steady growth with expected profit margin will definitely strengthen the company. Instead of taking more orders then having a problem. So if we analyze the Rs. 2,000-2,500 crores projects, we are having a chance of getting some HAM projects and also irrigation projects which will suffice for the next 6-9 months. You might have seen our basic graphs for the last 6-7 years. We have grown very slowly only but steadily. So it has not affected us even when there is a problem in the sector.
- Parkishit Kandpal:** Sir, and the last time we had discussion about the irrigation projects in Telangana, we said that probably project they should get completed before the elections otherwise there could be issues with regards to payment. Now again we have already some work in hand. We are executing that. So why are we again bidding for irrigation project because it looks to be a change in stance?
- S. Vaikuntanathan:** No, the irrigation project which we have taken up, we have completed more than 55 to 60% and taken the billing for the same. This is an achievement because it is a model project in the package, and other people have completed only 15%-20%. So our aim is, when there is a fund, speed up the work and then complete fast, so at least profitability will come. Moreover when there is no mobilization advance there will be fewer participants and the profit margin also may be there. We are only taking limited orders. So at least we should not get burdened in the future when the budget provision is not there.
- Parkishit Kandpal:** We are looking to bid for metro projects now. So what could be the focused geographies here, what will be the ticket size you are looking at and since start of the call we had said that in future fortunately the road flowed itself, so why are we at all looking at the segment?
- S. Vaikuntanathan:** Sir, the Salem 5 junction flyover is one of the flyover project which the company has taken up. The cost of the project is around Rs. 295 crores and once we complete we will get qualified for a higher range of metro projects. So we are trying to expedite and complete the project in Salem. So this will help us to take number of metro projects and flyover projects, even in the smart city you are getting lot of flyover projects coming up. So those advantages will be there.
- Parkishit Kandpal:** The focus will be only on flyovers or metro projects?

- S. Vaikuntanathan:** Metro and flyover, both.
- Parkishit Kandpal:** But why do you want to go into Metro? I mean, we already have so much of scope to do in roads, flyovers...?
- S. Vaikuntanathan:** We will definitely go for Metro and flyover projects if it falls under our criteria of higher profit margins and secured funds available for the project.
- Parkishit Kandpal:** And sir, what is the update on the claims that we have put for the Kerala BOT?
- S. Vaikuntanathan:** Yes. The process, it is on but it takes time, and we are quite confident to get the claim also because we are the sufferers.
- Parkishit Kandpal:** How much of the total amount will be putting out for this?
- S. Vaikuntanathan:** See, around Rs. 280 crores we have put
- Parkishit Kandpal:** And this shall get decided within one year?
- S. Vaikuntanathan:** See, it takes 2-2.5 years.
- Moderator:** Thank you. We have the next question from the line of Alok Deora from IIFL. Please go ahead.
- Alok Deora:** Sir just couple of questions. One is on the order inflow, like we have not really received any order in the first quarter. So are we sticking to the 20 million kind of order inflow target, considering there are not many tenders which are out from NHAI and even the state governments owing to GST implementation. So what is your view on that?
- S. Vaikuntanathan:** As you rightly said, in the first quarter the tendering has slowed down because, one is GST and the second is the land acquisition. But now, I think lot of tenders are there and we have also bid for a number of EPC projects which we could not get because we need them at our own marginss.
- Alok Deora:** Okay. So this Rs. 20 million could be lower or there is a downside risk because even if you see last year, your order book was somewhere close to Rs. 4,500 crores and that has now declined by Rs. 1,000 crores. So we could see further erosion in the order book. Is that a possibility because execution is ramping up quite fast?
- S. Vaikuntanathan:** Now in order to speed up the order book, we do not want to enter in to a mess. But orders will come definitely. It is a right time for HAM projects to come because as you very well know earlier for most of the HAM projects even the FCs are not closed. But we are very confident and now it is the right time for us to enter as we will be able to get an order at our own terms and we can also do the FCs without any problem.

- Alok Deora:** And sir, one question is on claims which we have received during the quarter. So this is also accounted in your revenue and operating profit and it is directly showing to the profit; there is no expenses or anything, it is a net?
- K. Venkatram Rao:** Yes, correct. It is net.
- Alok Deora:** Okay. So if we adjust for that, your margins would be close to 14.5% to 15% kind of number which is the usual margins?
- K. Venkatram Rao:** Yes.
- Alok Deora:** Just one last question. In HAM projects we have seen slightly aggressive bidding because lot of BOT players are also now looking at HAM projects quite seriously. So even players like IRB and some players who were not looking at HAM initially are now looking at it. So are you like open to taking projects at say 11%-12% kind of margins or you would be taking only at around 14%-15% kind of margins which you do in your EPC segment?
- S. Vaikuntanathan:** We will stick to our margins, if you see for HAM project only 6 to 7 players are there. Most of them have already got 4 to 5 projects and now a lot of projects are coming, 80 HAM projects are planned and definitely we will have our own share.
- Moderator:** Thank you. We have the next question from the line of Sandeep Jagwani from Narnolia Securities. Please go ahead.
- Sandeep Jagwani:** My question is pertaining to the Hubli-Hospet. As you mentioned that the, you have taken up work around Rs. 30 crores, so what exactly is stopping us to book the revenue sir?
- K. Venkatram Rao:** Actually we have got appointed date of this project in March 2017, so any project it will take almost 5 to 6 months to start the first billing. So as of date we have completed Rs. 30 crores of the work. we are expecting that billing could start from this quarter.
- Sandeep Jagwani:** From Q2?
- K. Venkatram Rao:** Yes. Q2 it will start.
- Sandeep Jagwani:** And sir my second question, sudden spike in depreciation, depreciation Y-on-Y this is...?
- K. Venkatram Rao:** Sir, in this quarter we have revised the estimation of the life of the assets for our irrigation project in Telangana. As you know in this project we are working in 2.5 to 3 shifts per day so to that extent the assets are going to depreciate much more than what we expect. So initially as per our accounting policy we depreciated the asset based on 7-years life cycle. But as we are ramping up very fast in the project we have revised our estimates and kept the life of the assets to around 3-4 years. So that is why depreciation is higher in this quarter.

- Sandeep Jagwani:** So it is a sort of one-off or it will be a normal going ahead?
- K. Venkatram Rao:** Sir, it will be there for this year, until that project is completed, we have put around Rs. 60 crores of assets in this project. So until it gets written-off it will be the same.
- Sandeep Jagwani:** Okay. For the irrigation project, the amount was around Rs. 500 crores??
- K. Venkatram Rao:** Order book, Rs.500 crores is there, yes.
- Sandeep Jagwani:** So depreciation amount will remain high until that amount of work is completed?
- K. Venkatram Rao:** Until this order book is exhausted.
- Moderator:** Thank you. We have the next question from the line of Prabhat Anantraman from B&K Securities. Please go ahead.
- Prabhat Anantraman:** Just two question, sir. In the last quarter we had mentioned that we would be giving a possible investment of Rs. 25 crores more to the Bihar BOT. Did you give an update on that? I must have missed it.
- K. Venkatram Rao:** We have told that we have to invest because there is a change of scope in the Bihar project, that we have completed. So that equity is going to be invested during this quarter .
- Prabhat Anantraman:** Okay. So we are going to invest a further 25 crores?
- K. Venkatram Rao:** In Walayar there won't be any further investment. As far as Muzaffarpur is concerned there will be investment to the extent of around Rs. 25 crores.
- Prabhat Anantraman:** And sir just one more question on the order inflow front. We are already into the second quarter we still haven't seen any order inflows being reported by any road developer, be it in the listed space or the unlisted space, or even if you go through the NHAI, MIS data there is not really anything happening so far in the order inflow front and so this would be like half the year is gone and the orders are not yet been awarded. you have maintained your guidance at Rs. 2,000 crores for the year, so have all the road developers. But what kind of risk can we see, if the orders don't really come in and that could really impact your execution going forward?
- S. Vaikuntanathan:** There is a logical reason for why they have postponed it. See, there are two aspects, one is once the tender is called on and then the tender is awarded without seeing whether the right of way is available. There is pressure on NHAI and also the developers to accept the appointed day and which finally runs in to problem. That is why they have taken the step that unless otherwise minimum 80% of the right of way is not clear we will not go for tendering. And adding to that the GST has also slightly impacted by postponing the tendering because they

have to also understand the liability on them. So that has happened but now I think since that is taking shape we expect from next another 1 or 2 weeks the tenders will flow in.

Prabhat Anantraman: So is it comfortable for you to share some kind of color or data on currently how many project roughly have you submitted bids for and some timeline on when we can expect something on that front?

S. Vaikuntanathan: See last quarter we bid tenders of around Rs. 2,000-2,400 crores but none of them we could get L1. Now there are 3 projects which we have submitted recently on the irrigation side of around Rs. 1,400 crores where the results are expected to come. And then some HAM projects also we have now tendered. So the outstanding tenders result which we have to get is approximately Rs. 3,000-4,000 crores.

Prabhat Anantraman: Across irrigation and road, both?

S. Vaikuntanathan: Yes Both.

Moderator: Thank you. We have the next question from the line of Faisal Hawa from H.G. Hawa & Company. Please go ahead.

Faisal Hawa: My concern is that, we have the first time that in a full calendar year, we have not got a single order. So in the event that our order book still doesn't fill up, what is our plan B? Second question is in the last con-call you have said that we have done some tendering for some Maharashtra government orders, where do we stand on that? And on the Sagar Mala project, is there some way that we could also benefit or will it be in the next FY that the tendering will come through? And Nagpur Expressway, shall we take up the entire stretch of the Expressway or we will take up some parts of it?

S. Vaikuntanathan: See, as far as Maharashtra is concerned I think they are calling the tenders because there was some initial approval of the bidders and all that was going on. And with reference to the first question, So now we are having Rs. 3,338 crores order on hand which is sufficient, two years visibility is there. Now whatever orders we receive will take, in the case of road, 6 to 7 months for us to proceed. So you can say it will come only in the next financial year. And coming to irrigation, we may take around two months to start the project. See, if we go for a lot of orders then probably we have to sacrifice on margins which we don't want to do. But anyhow in a lot of orders we are already in the bidding stage. Lot of tenders as we told just now, lot of bids also we have bided and it will definitely open and future also some HAM projects from NHAI also is being planned in another 2 weeks or so. Order book position, getting orders will not be a problem, but then we have to wait and then get at our own rates, that is what is our intention.

Faisal Hawa: Sir in the last 6-7 years, how many claims are still pending with at various forum?

- S. Vaikuntanathan:** See now, we have got two claims in annuity project pending with NHAI and then this Walayar project is there. Then in Orissa there is claim pending. So the major claims which is outstanding you can say tentatively to the extent of around Rs. 450-500 crores.
- Faisal Hawa:** You are saying that claims worth 450 crores are pending at different...?
- S. Vaikuntanathan:** No, Rs. 500 crores of claims in different projects are pending with the departments in various stages.
- Faisal Hawa:** Okay. So in the next 4-5 years are you trying to tell me that we may get Rs. 400 to 500 crores worth of claims. What is the amount of claim?
- S. Vaikuntanathan:** They may agree, they may not agree. See the probability of getting a 100% may not be there. In the discussion stage only we will come to know but whatever claim we have put is quite reasonable, so we should get a substantial claim, but the percentage we cannot have it now itself.
- Faisal Hawa:** About the Sagar Mala and Nagpur Expressway project my question remains unanswered?
- S. Vaikuntanathan:** Sagar Mala we are yet to take a call on that, sir.
- Faisal Hawa:** And will steel prices going up really affect us in this financial year itself?
- K. Venkatram Rao:** Generally in our projects we have that cost escalation clause, but cost escalation cannot be 100% pass through. That is based on the percentage. So whatever EPC contract we are having in our kitty it has that clause. So definitely to maximum extent we got the reimbursement of this escalation but it is not 100% pass through also.
- Moderator:** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, just wanted to understand is there any remaining claims bonus which is either on the IT refund interest to be booked in this financial year?
- K. Venkatram Rao:** Actually as far as income tax refund is concerned that is, we have got everything, nothing is pending. But in respect of claims we have quoted almost Rs. 500 crores which are in various stages but definitely this year we do not expect to get anything.
- Shravan Shah:** And this entire Rs. 37 crores IT refund has been booked, so nothing is pending?
- K. Venkatram Rao:** Yes, nothing is pending.

- Shravan Shah:** And even on sale of two BOT annuity as we have mentioned in the presentation the enterprise value is Rs. 850 crores and if I just add the equity and then it is around Rs. 81 crores. So is there anything which in terms of the profit gain, exceptional item do we improve?
- K. Venkatram Rao:** Last year's Q3, whatever the loss is there, to the extent of Rs. 11 crores we have already booked. So there is no further thing to be booked in the current financial year.
- Shravan Shah:** And is there any likelihood to get any bonus on any of our EPC project in this year or next year?
- K. Venkatram Rao:** This year, I don't think we are going to receive any bonus event.
- Shravan Shah:** Or let me put it in other way, do you see any of our ongoing major 8-10 EPC projects, will you be completing projects ahead of time by FY19?
- K. Venkatram Rao:** Actually we may complete this irrigation project, but there is no bonus clause in this contract. In any other EPC project and road sector we are going to complete some of the projects in next year only.
- Shravan Shah:** So you are saying it will be ahead of time.
- S. Vaikuntanathan:** Irrigation is ahead of time, but no bonus clause in the contract. The other road projects, still it is extended up to next year, only at the end of next year will be in the position to tell.
- Shravan Shah:** Understood sir. And sir if I look at the Muzaffarpur-Barauni, toll this time has increased significantly compared to last quarter so is there any hike in the toll rate?
- S. Vaikuntanathan:** The far off stretches are getting completed which is having a link to this road, so bridges and all they have completed, so that has increased the traffic. Some more bridges have to be completed after 1 or 2 years. Only once they complete then a lot of traffic flow will flow. So there is a good future for this project.
- Shravan Shah:** Okay. And sir if you can tell me the extension of time we got for any of our EPC projects recently, particularly Hubli-Hospet we just recently got appointed date. So can you summarize in any of the EPC projects what kind of time extensions we have received?
- S. Vaikuntanathan:** See, one is in Madurai where we have got the RoB clearance. RoB clearances are delayed not because of us, but by theNHAI department and NHAI goes ahead giving an EOT. And also the awarding additional work, or change of scope if additionally awarded, then EOT also will be permitted.. Similarly in Trivandrum also.
- Shravan Shah:** And sir, is there any additional scope of work in terms of booking the order book, is it pending or likely to happen in...?

- S. Vaikuntanathan:** Yes, pending around Rs. 100-120 crores.
- K. Venkatram Rao:** But in Trivandrum the total around Rs. 200 crores further additional scope out there. Rs. 60 crores we have got the approval, around balance Rs. 140 crores the approval is yet to come.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** Just a quick clarification. What is the tax rate you are expecting for this year and FY19?
- K. Venkatram Rao:** This year net tax rate will be around 8%-10% because our current rate will be the MAT tax only after that credit it will be there. So net tax will be 10% and next year it will be in the range of around 15%-20%.
- Moderator:** Thank you. We have the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Sir, my question was with respect to Arunachal Pradesh project, it seems for the last 3 quarters we have not made any progress there? So is there any issue with the project, I thought you have taken it over from your partner and you won't even executing the project and which is where you wanted to want to finish it as early as possible?
- S. Vaikuntanathan:** Yes, definitely. We have taken over that project and we are now totally supervising that because in that project, there is a revision of the quantity because whatever the earlier quantity was there, so that quantity has exhausted and there will be the revision in the contract for that we already applied to the department and to the extent of around Rs. 140 crores. So we are waiting for that. So that is why it is getting delayed. Once this approval will come actually we will speed up the work and it will be completed as per the schedule.
- Prem Khurana:** Sure. Sir as I see it the order backlog and if I were to look at the order backlog we have almost Rs. 46 odd crores of order pending there and you are saying there will be incremental work over Rs. 140 odd crores. So in sometime the order book to the extent of Rs. 180 crores, is what you mean to say?
- K. Venkata Ram Rao:** Yes. Once this Rs. 140 crore approval will come actually then definitely this will increase. And landscape wise Arunachal Pradesh you can work only for 6 months.
- Prem Khurana:** But I mean there is not liquidity damages or issue because the project was delayed earlier, so there is no liquidity damages, that we will be required to face at this project, right?
- S. Vaikuntanathan:** Yes, correct.

- Moderator:** Thank you. We have the next question from the line of Divyata Dalal from Systematix. Please go ahead.
- Divyata Dalal:** Just wanted to get a sense of increasing cope up work which we are expecting in the Thiruvananthapuram project, has that come through in the road project?
- S. Vaikuntanathan:** No it has not come. That is why we are waiting for that approval.
- Divyata Dalal:** What would be the tentative size of increase in scope there?
- S. Vaikuntanathan:** We are only around Rs. 140 crores.
- Divyata Dalal:** And in addition to that we are expecting a Rs. 60 crores increase in scope in Telangana Irrigation Project also, is it?
- S. Vaikuntanathan:** Rs.60 crores we already got it actually and Rs. 140 crores we are waiting for that approval.
- Moderator:** Thank you. The next question is from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** Yes sir. On the HAM projects which you mentioned in the next 4-5 months there are about 18 projects to be bid. Can you just give us an idea of the total size of these projects which are going to be bid out in the next 4 to 5 months and within 18 or 80? Just wanted to clarify.
- S. Vaikuntanathan:** 80 and then the HAM project also size various from Rs, 800 to Rs. 1,200-1,300 crores.
- Rahul Singh:** So you are roughly saying that roughly 80,000 crores of HAM bids are going to be...?
- S. Vaikuntanathan:** Yes.
- Rahul Singh:** And out of that you are currently bid already for Rs. 1,500 crores in the pipeline, I mean the one which you have already bid for is that only I mentioned...
- S. Vaikuntanathan:** No, we are yet to bid for NHAI project, NHAI HAM project.
- K. Venkatram Rao:** What we have bided they have been from KSHIP, Karnataka project.
- Rahul Singh:** And is there any limit of the debt equity which you will go to in our balance sheet to support the equity requirement which will be there for the HAM projects, so what is the consolidated level or at the stand alone level for KNR, do you have any kind of debt numbers in mind to support the kind of commitment which will be required for the HAM projects?

- S. Vaikuntanathan:** See, if you see our debt-equity ratio is very low. And even 1:2 range also we can go substantial bid, principally I am telling, but we are not interested to take that much debt on our book. Maybe we may go up to Rs.400-600 crores of debt.
- Moderator:** Thank you. We have the next question from the line of Mohit Hans from Esta Capital. Please go ahead.
- Mohit Hans:** Sir, this is a question about the purchase agreement to sell the equity stake in the road BOT asset. The enterprise value is Rs. 850 crores for the two assets together, right?
- K. Venkatram Rao:** Rs.850 crores is the enterprises value, you see the equity value, because loan is there almost to the extent of Rs. 780 crores. The value of equity for this project is only to the extent of around Rs. 70 crores.
- Mohit Hans:** Just a question sir, what was the inflow you are getting out of these two assets?
- S. Vaikuntanathan:** We are getting around Rs. 25 crores of inflow by sale of these two assets.
- Mohit Hans:** Our share?
- S. Vaikuntanathan:** Our share.
- Mohit Hans:** No, what were you getting, as a free cash flow?
- S. Vaikuntanathan:** No, these projects are earlier being refinanced through promoter debts. If the projects get sold now Rs. 780 crores of debt will be taken over by the buyer and the equity component of Rs. 70crores which comes will be shared between the joint venture partners. There is not much cash-in-flow. Whatever the annuity is coming it is taking care of the basically the financial requirement of the bank.
- Moderator:** Thank you. We have the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Sir in your remarks you said second and third quarter it will be because of rains, but then if I were to look at seasonality would have been there last year as well, right? In fact, last year had floods as well in Tamil Nadu the numbers be high than last year at least?
- S. Vaikuntanathan:** You talked about the progress of the second and third quarter, am I right?
- Prem Khurana:** Yes.
- S. Vaikuntanathan:** See, it is estimated that there may be some range which may happen, it may not be like first quarter, that is what we said. Maybe if it is Rs. 480 crores in Q1, it maybe around Rs. 380-400 crores That is what the assumption because you cannot project the same level as first quarter

because second quarter and third quarter there are certain rain areas where it will affect little bit. Where ever the structures are there it may not get affected but even then to be on the cautious side it was told.

Prem Khurana: And on Muzaffarpur-Barauni once we have COD for 100% length and all the structure are in place, what kind of numbers will be there in terms of daily collection?

S. Vaikuntanathan: See, once it is 100% already the NHAI has in-principle cleared it and there is some documentation has to take effect and once that is completed and the 100% will give around Rs. 15 lakhs to Rs. 16 lakhs per day.

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

S. Vaikuntanathan: Thank you everyone for your participation in our earnings call. We have uploaded the presentation on our company's website. In case of other queries you may get it touch with the Strategic Growth Advisors, our investor relation advisor or feel free to get in touch with us. Thank you very much.

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