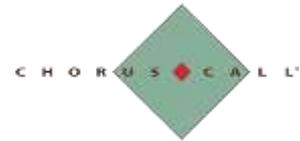




“KNR Constructions Limited
. Q3 FY '23 Earnings Conference Call”
February 10, 2023



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Moderator:

Ladies and gentlemen, good day, and welcome to KNR Constructions Limited Q3 FY '23 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero 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 morning, everyone. Thank you for joining us today on the call to discuss the financial results for Q3 and 9 months ended financial year of 2023. Along with me, I have Mr. K. Jalandhar Reddy, Executive Director; Mr. K. Venkatram Rao, General Manager of Finance and Accounts, and Strategic Growth Advisors, our Investor Relation Advisors.

We have uploaded results and investor presentation on the stock exchanges as well as on our company website. I hope everyone got an opportunity to go through it. We would like to touch upon a few industry events and key company updates, post which we will have a question-and-answer session.

Now I would like to share our thoughts on the recently announced union budget and other important industry developments. Starting with the budget highlights. The government continued to focus on infrastructure development. The government announced increase in capital expenditure on infrastructure investment by 33% to INR 10 lakh crores and almost equivalent to 3.3% of the GDP.

The massive capex investment is expected to boost the GDP growth and create new job opportunities, especially in the hinterlands of the country as the focus continued on roads, irrigation and railways in the budget. As far as the allocation to highways is concerned, the government has allocated INR 2.7 lakh crores as against the revised allocation of INR 2.17 crores the previous year. Similarly, the allocation to NHAI is INR 1.62 lakh crores as against the base allocation of INR 1.42 lakh crores.

Coming to the irrigation sector, Jal Shakti Ministry has been allocated INR 97,278 crores, which will further strengthen the activities in the irrigation sector prominently for Jal Jeevan Mission. We strongly believe that the government thrust on the infrastructure development, along with the various initiatives announced by NHAI have created multiple tailwinds to the roads and highway business.



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KNR Construction remained geared up in terms of its capabilities and financial position to fully leverage these tailwinds to further create the value to the shareholders. As far as the overall tendering, awarding and construction highways is concerned, the overall activity has picked up the pace in the last 3, 4 months, which was affected during half year ended financial year 2023, owing to the prolonged monsoons in 2022.

Coming to the FASTag collections, the toll collection stood at INR 50,855 crores for financial year 2022, a growth of around 46% as compared to INR 34,778 crores in financial year 2021. The average daily toll collection through FASTag in December 2022, stood at INR 134.44 crores, and the single day highest collection touched INR 144.19 crores on 24th December 2022.

The implementation of FASTag system has improved the collection and has brought more efficiency in overall toll collection operation. This has resulted in improved financial position and has encouraged the private players to participate in the highway projects.

Now coming to the key updates for the company. In the quarter gone by, the company has completed transfer of equity shares in the following 3 subsidiaries to CUBE Highways and Infrastructure.

Number one, KNR Tirumala Infra Private Limited, the company has invested INR 160.22 crores in the form of equity and sub debt for which the company has received INR 136.81 crores against the transfer of 49% of equity stake and the repayment of entire sub debt as on 31st December 2021. The company has now received INR 68.13 crores against the transfer of the remaining 51% of equity stake. In addition to the above, the company shall be eligible to receive an additional consideration up to INR 14.05 crores, subject to receipts of certain approvals from NHAI.

Number two, KNR Shankarampet Projects Private Limited, The company has invested INR 126.81 crores in the form of equity and sub debt, for which the company has received INR 108.51 crores against transfer of 49% equity stake and repayment of entire sub debt on December 31, 2021. And now the company has received INR 46.09 crores against the transfer of remaining 51% equity stake. In addition to the above, the company shall be eligible to receive an additional consideration up to an amount of INR 4.61 crores, subject to the receipt of certain approvals from NHAI.

Three, KNR Srirangam Infra Private Limited, The company has invested INR 78.36 crores in the form of equity and sub debt, for which the company has received INR 131.15 crores against transfer of 100% of equity stake and repayment of entire sub debt during the current transaction. In addition to the above, the company shall be eligible to receive an additional consideration up to an amount of INR 15.40 crores subject to receipt of certain approval from NHAI.



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With the sale of the above 3 companies, the company has accounted profit of INR 137.97 crores, which was shown as an exceptional item and an amount of INR 27.47 crores has been showed under the provision of tax on above profits.

With respect to the search operation conducted by the income tax department under Section 132 of the Income Tax Act 1961 in March 2022. The assessing officer has initiated a proceeding for reassessment of income as is relevant for the each financial years from 2016 -17 to 2021-22. Further, based on the deliberations with the assessing officer and on a prudent measure, the company has made a provision of INR 24.75 crores towards provision for income tax and INR 9.45 crores interest on income tax for the above each years.

The percentage of physical progress as of December 31, 2022 for HAM project is as follows: Magadi to Somwarpath at 68.9%, Oddanchatram to Madathukulam is 85.6%, Valanchery to Kappirikkad is 16.8% and Ramanattukara to Valanchery is 14.3%. The company has received the appointed date as on 25th January 2023 for Chittoor-Thatchur Highway.

During the quarter, the execution has primarily been driven by HAM projects.

Out of the INR 732.86 crores of revised equity requirement for all the 5 HAM projects, the company has already invested INR 293.13 crores as on December 31, 2022. The incremental equity requirement of INR 77.98 crores to be infused, INR 256.06 crores and INR 96.70 crores for the remaining part of the financial year FY '23, FY '24 and FY '25, respectively. You can refer the slide #24 of the investor presentation for detail on each HAM project.

The toll collection for the Bihar project, that is Muzaffarpur to Barauni, in Q3 FY '23 and 9 months ended FY '23 has been INR 11.6 crores and INR 33.5 crores.

Now coming to the order book position.

As of December 31, 2022, the company has an outstanding order book position of INR 8,100 crores. EPC Road projects and HAM projects constitute 77% of the total order book, while litigation project constitute remaining 23%. Client wise, 51% of the order book is from third-party clients and balance 49% is from captive HAM projects.

The third-party order booked or non-captive order book, which accounts for 51% of the total order book position is skewed between state government contracts with 36% whereas 11% is from central government and balance 4% order book is from other private players. The current order book position remains healthy and provides a clear visibility of execution over a period of next 2.5 years.

A robust project pipeline and ready DPR, detailed project report, under the Bharatmala project should accelerate the projects awarding activity going forward. The company is targeting a further order inflow of INR 4,000 crores to INR 5,000 crores for the financial year 2023.



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I will now request Mr. K. Venkatram Rao, our GM, to present the results for the quarter and the 9 months ended December 31, 2022. Over to Venkatram.

K. Venkatram Rao:

Thank you, sir. Please note that Q3 and 9 months FY '23 standalone as well as the consolidated numbers include -- let me take through the Q3 and 9-month FY '23 standalone financial performance first, followed by the consolidated highlights. I will start with quarterly highlights first. The revenue for the quarter grew by 8% year-on-year to INR 830.2 crores. EBITDA for Q3 FY '23 remained flat at INR 156 crores as compared to INR 158.9 crores in Q3 FY '22. EBITDA margin of Q3 FY '23 stood at 18.8%. Net profit for the quarter was INR 161.8 crores as compared to INR 100.8 crores in Q3 FY '23, a growth of 61%.

Now coming to 9 months FY '23 highlights. The revenue for 9 months FY '23 grew by 14% year-on-year to INR 2,568.2 crores. EBITDA for 9 months FY '23 witnessed a growth of 9% to INR 509.8 crores as compared to INR 469.7 crores in 9 months FY '22. EBITDA margin in 9 months of FY '23 stood at 19.9%. Net profit for 9 months FY '23 was INR 370.2 crores as compared to INR 269 crores in 9 months FY '22.

Now coming to consolidated financial performance, I will start with the quarterly highlights. The company recorded a 2% year-on-year growth in total revenue for INR 854.6 crores in Q3, of INR 22 crores to INR 874.9 crores in Q3 FY '23. EBITDA came in at INR 196.8 crores in Q3 FY '23 as compared to INR 139.6 crores in the same period last year. EBITDA margin in the current quarter stood at 22.5%. Profit after tax stood at INR 108.3 crores in Q3 FY '23.

Moving on 9-month FY '23 highlights, the revenue for 9 months FY '23 grew by 13% year-on-year to INR 2,817 crores. EBITDA for 9 month FY '23 witnessed a growth of 29% to INR 671.4 crores as compared to INR 519.8 crores in 9 months FY '22. EBITDA margin in 9 months stood at 23.8%. Net profit for 9 months FY '23 was INR 297.7 crores as compared to INR 225.7 crores in 9 months FY '22.

Now moving to the standalone balance sheet. The company continued to maintain a strong balance sheet. The working capital days stood at 53 days compared to 54 days in September '22. The standalone debt as of 31st December '22 is INR 0 crores compared to around INR 200 crores of 30th September 2022. The consolidated debt as of December 31, 2022, is INR 456 crores as compared to INR 1,864 crores as of September 30, 2022. The net debt to equity as on consolidated basis as of December 31, 2022, stand at 0.17x as compared to 0.74x as of September 30, 2022. With this, we can open the floor for question-and-answer.

Moderator:

First question is from the line of Mohit Kumar from DAM Capital.

Mohit Kumar:

Two questions from my side. First is on the irrigation project. If I remember the number correct, it was INR 9 billion at the end of September '22. And we understand the lenders who released money for irrigation and it has come down. Can you just let us know the receivables at the end of Q3? And when do you expect the entire thing to get liquidated?



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K. Venkatram Rao: Sir, the receivables as of today is around INR 650 crores, including receivables as of 31st December work done, but not certified. So out of INR 650 crores, INR 335 crores is the receivables as of December and around INR 315 crores is a work done, but yet to be certified. So definitely from what are these figures are there in September, it is INR 900 crores, now reduced to INR 650 crores actually by end of December.

Mohit Kumar: And are we having started the work for irrigation project? I think this quarter was muted. Can we expect it to go up?

K. Venkatram Rao: Yes, yes. Actually, definitely, there was issue in the Vатtem project. Now that clearance has come, and now we have started to work on this our Vатtem project. As far as our other irrigation sites are there, that is package 4.

Now we are doing the work in a very fast pace. Only now almost all civil structures work we have almost completed. Now we have to build that pump house for that we have to board the electromagnetic equipment. For that we are already tying with the BHEL to get it and hope that in next year, actually in '24 actually FY '24, we should be able to complete that work also.

Mohit Kumar: Are you happy with the money available with the government? Is the government regularly paying the money now? Are you seeing -- are you comfortable with that?

K. Venkatram Rao: As far as package 4 is concerned, where there is -- it is already funded by the bank. And almost in last quarter, we got INR 350 crores actually in that project itself only. So definitely, money is there actually as of now for package 4. So we are really not seeing any issue as far as package 4 is concerned. But definitely, this Vатtem package and other package for live package 3, it is budgetary support. So that we have to really see because almost government has promised that they will pay actually every month INR 50 crores. So only the last month we have not got, but before that, we got all the money from the department.

Mohit Kumar: Understood. Second question on the order inflow, sir. Of course, the order inflow for the 9 months was very, very muted. What is the pipeline looking for -- looking for us. Apart from NHAI, is there any order -- is there any other pipeline, which is available to us?

K. Venkatram Rao: Jalandhar, sir, you want to...

Jalandhar Reddy: Yes. Sir, actually, our rate flow is very poor. I agree because market is very aggressive. Every EPC tender is clocking below 30%, 32%, 35% also has been the level. When trying to understand how to do the project setback first, definitely, there is some sort of aggression is there. And maybe we have seen many projects who have quoted less and they failed also. After having this experience, definitely, we don't want to pitch into those levels and land into problems for the future.

But however, sir, we have targeted almost this coming month, there are almost 22 tenders, which we are doing in March only. And this month, we are not less than from the 10 bids to 12 bids we are submitting. So every effort is being done to take some orders. But we can simply give a



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sensible price, but we cannot give a price, which is a winning figure and later it land us in problem.

So that's how the things are there, but I think, sir, there are players who are understanding, but by the time, there are new players who are also coming in and then they're taking a bad price kind of that.

So there is an example who have quoted less, they have suffered, but people still are traveling in the same route. So I think if you target something in coming 2, 3 months, it will be a little bit tougher to get projects. Later stage, things may become a little normal. That's what we are estimating.

Mohit Kumar: Anything apart from NHAI, sir, is available?

Jalandhar Reddy: Pardon, sir.

Mohit Kumar: Yes, anything other than NHAI, roads, is there anything else you are targeting in Q4, something irrigation, water.

Jalandhar Reddy: We will focus on -- continue to focus on irrigation projects, but the pipeline is very limited here. Bidding scope is very limited. But anyhow, we will put on the efforts there. And partially, we are in line to discuss with the joint venture partner for our railway entry also. I think it is not successfully done. So I think sooner once we get on to that clarity, we'll let you know on that.

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: Sir, just continuing the previous question, this 22 tenders that we are looking to bid next month, March and 10 to 12 bids that we are looking to submit this month, what is the value and how much is the HAM projects in that and the number that we are targeting INR 4,000 crores to INR 5,000 crores inflow. So that entirely is from the HAM that we are looking at?

Jalandhar Reddy: So the HAM proposition is more sir. But even some more projects like -- but the ticket size has now become very small. As you were asking rightly, that the overall size and all, but the projects are varying from INR 500 crores to INR 700 crores, INR 900 crores, INR 800 crores, even INR 1,100 crores are there as a bigger ticket price in this slot. So that is a major problem, sir. And the proposition between HAM and EPC, HAM are more in numbers, sir.

Shravan Shah: Okay. No, sir, why I was asking -- I was trying to understand if as you are saying the ticket size is INR 500 crores, INR 700 crores. So if I just put 22 plus 10, 32, 34 tenders. So close to INR 17,000 crores, even if I average at INR 500 crores, so I'm just trying to understand the value. So in terms of the success rate for us to back the INR 4,000 crores, INR 5,000 crores. So in that sense, I was trying to understand.

Jalandhar Reddy: Sir, actually, this year -- I mean, March, if I'm happily getting around INR 2,000 crores, so I'm very happy. Even if I don't get also -- if I don't get a bad price, that is good. That is a major thing.



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So whatever I get there a good price, I should target. I have no target that I should get before March only, but I will keep on putting on this bid, sir.

Actually, the bids are available in 22 numbers, but whether the bidding is going to happen for all these tenders, which I'm really doubtful because they've been getting postponed. I think it is now pushed to March. But another push of postponed event is not happening, then it will definitely happen in the March.

Shravan Shah:

Okay. And the other is in terms of the execution part. So for particularly the larger one I'm trying to just understand. So 2 Kerala HAM projects in 9 months, we have done close to INR 431 crores revenue and current outstanding order book is INR 2,822 odd crores. And we were looking at to complete by next March. So now 15 months to complete. So just trying to understand what kind of revenue we are looking in the fourth quarter? And are we able to complete by March 24, this INR 2,800 crores order for the 2 Kerala HAM project?

Jalandhar Reddy:

The Kerala HAM project now, as of now, there's a lot of time lost due to heavy rain. That is a major problem. We base rains from April to December. Even in December 10 days, we had rain sir. So after December, I think 1/1.5 months only, the progress has happened. And however, there have been certain problems that on 2 levels we should not work -- therein 2 levels we should not work and then they say night working they stopped for us.

All these now we have gone to CM. CM has promised us to get the timing cleared for us. So we'll get more working period. So if that is started out sir, definitely, we will go breaking on target that's the major thing we are chasing there, I think last Tuesday, I was there in NHAI, I had a clear cut discussion with Chairman sir. Chairman sir also has put it devoted to the CM and things are being persuaded very higher levels.

Shravan Shah:

And on the irrigation project, so whatever we are having a balance, so package 4, sir mentioned that Venkat sir that by March '24, we will be able to complete. So out of that remaining Vattem INR 290-odd crores and package 3. So how much revenue are we looking at in this fourth quarter and when we can see this to be completed?

Jalandhar Reddy:

Sir actually, 4th Quarter concerned whatever the discussions we have done, at least we'll try to achieve the last year figures because that got together hanging on this that because rainy was very heavy in this quarter, second and third quarter, completely, we have affected with this. So little bit bullishness is not there in this top line numbers. But however, the next year is concerned, I think may not be so much rainy, definitely we'll do our best.

Shravan Shah:

But broadly, sir, in terms of the Vattem INR 290 crores remaining, when do we see to get completed in fourth quarter, how much are we looking at and the package 3, which is INR 871 crores. So how much are we -- sorry, INR 550 crores, how much are we looking to book any revenue in fourth quarter and in FY '24, how much are we looking to book the revenue from this?



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Jalandhar Reddy: Sir that main thing there, MD sir and me both discussed about this that before election, we would like to complete this. However, subject to realization of the payment also is a big content because now that Kerala projects and all other projects are under running stage, wherein equities are likely to come out.

So there, we do not want to take a chance for one project knocking effort to go on to the other projects. So we would go and limit investments into these projects and try to balance the situation, sir. So it depends on how state government cope ups to give up the payment. That is the major concern here, sir.

Shravan Shah: Last Venkat sir, two datapoints. What is the consol cash? And what was the irrigation revenue in third quarter and 9 month?

K. Venkatram Rao: The irrigation revenue in Q3 was that is around 23% comes to INR 190 crores. And for 9 month, it is around 25% comes to INR 628 crores.

Shravan Shah: And consol cash balance?

K. Venkatram Rao: Because standalone cash is INR 125 crores and consol cash, sir, on that data, I will send you separately.

Moderator: The next question is from the line of Alok Deora from Motilal Oswal.

Alok Deora: Sir, some of the questions have been answered. I just wanted to understand like the order inflow, again, on the order inflow. So it's been really muted and out of the INR 8,000 crores, significant decent chunk is of irrigation, which is moving slow. So what kind of growth now we are looking at for FY '24? And also, you mentioned that the intensity of bidding continues to be very aggressive. So how confident we are on getting this INR 4,000 crores, INR 5,000 crores of orders in the next almost only 1.5 or 2 months are left.

K. Venkatram Rao: Jalandhar sir?

Jalandhar Reddy: Yes. Actually probability of getting the first INR 4,000 crores is a little bit as of now, to seems to be a little bit challenging. I can really say that. And see, sir, the main problem is that the margins are extra, which those calls we have never taken in our company site. Rather, we are ready to a little bit scale down ourselves for some time.

And certain risky times, it is not wise that you try to go for a qualitative top line, but decrease the bottom line is not acceptable to us. So definitely, see, we are doing a business, we're making some good profits. And nowadays, all the highways are coming with lots of responsibility of maintenance also.

So definitely, we have to see that long-term benefits and then go forward only. Otherwise, we are likely to have a lot of problems in future. So this is the time where we should take right calls and do not come into pressure for coming, anyhow the market is also -- is going to realize in a

very short time about all the -- only newcomers who are coming, they are only quoting a little bit lesser and they are taking.

Otherwise, there are prominent players who are out there, they have already come down to the normal levels of course, bidding. So only the newcomers and all their update also a little bit over. I think it may take another couple of 3, 4 months, I'm expecting the market to be a little bit volatile like this. Then after that, it could be normalized. That is what we are expecting, sir. However, we are also making our trials in irrigation plus railways, even try -- will try in some of the bids in metros. That's what we are planning.

Alok Deora: So have you built for any of the other sectors? Or it's still at the planning phase?

Jalandhar Reddy: As a early thought , sir, we are starting some joint venture for our railways entry. And we are even trying to sort -- actually, the -- we have discussed quite a lot with 3 joint venture partners. As and when the things are materialized then definately we will come out and inform you sir.

Alok Deora: Sure. Just the last thing, sir, so realistically speaking, you might end up winning INR 2,000-odd crores of projects this year as in the remaining part of this year. And then again, their first half will be muted because that's a very slow time for order winning order awarding. So your order book will be very critical stage, right? I mean considering the execution which we are doing by end of September '24, FY '24, I think we would be very at very critical stage.

Jalandhar Reddy: Yes. I think it is like that. But definitely, it's not that market capital to be like this. Hopefully, things will become better and we'll be able to take the orders we need(33:29:00). The new area increase also may give us the doubt on this.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: My first question is on the irrigation projects. So when we expect to complete the entire order book, I think elections will be somewhere around the end of this year, what the you are looking to complete this quarter?

Jalandhar Reddy: Sir, actually, the target we made is that to complete all these before election, because after elections, we do not know what sort of calls will be taken by people and what set of things we'll have to address. So definitely, it is better, you finish everything before elections for which we are gearing up and trying to finish the things. But again, the concern is about having those in time. So, that payment -- that was the plan, sir. Maybe -- I may go a little bit...

Moderator: I'm sorry to interrupt you. We are unable to hear you. Your voice is sounding from a distance, sir.

Jalandhar Reddy: Actually, that's what the scenarios are. If I get payments on time, definitely, I'm going to do it.

Parikshit Kandpal: Okay, second question is on the NHAI pipeline. So you did mention about some 10, 12 bids, the summit in tender and coming month some 22 tenders are coming. So if you can highlight 32 or



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30 or 32 bids, these are largely big geographies of South India, and also if you can highlight what is our overall pipeline for NHAI till March, that be helpful to understand whether it is going to reduce from last year or it will be similar?

Jalandhar Reddy: I couldn't get that question, sir, actually.

Parikshit Kandpal: You have said that about 22 tenders are coming in this month, upcoming month and about 10 to 12 bids that you were already submitting. So I wanted to understand which you're committing are largely in South India right because of geographical focus in the 4 South states? My question is what is the total of bid pipeline in large, if you can help us understand what is the total project...

Jalandhar Reddy: I think around INR 35,000 crores. It's pipeline.

Jalandhar Reddy: But I'm focusing...

Jalandhar Reddy: 22 bids in the coming period.

Parikshit Kandpal: And what is the value of those 22 bids out of the INR 35,000 crores of pipeline.

Jalandhar Reddy: I've not calculated all that, but the bids are varying from INR 500 crores to 1,100 crores. Roughly around, I can say and I'm focusing about INR 17,000 crores, which to be done kind of that rough figure.

Parikshit Kandpal: Okay. So out of 35,000 pan-India bid, we are targeting about half of that, so largely focused in the Southern market.

Jalandhar Reddy: Generally, I'm continuing to refrain North India and northeast part of India as -- the project bid sizes are very small and the computation is very heavy. So if I see the bigger ticket size in North and Northeastern part of India, I'm likely to focus on that.

Parikshit Kandpal: Okay. And just one question on the income tax provision, sir. So we are generally seeing that the GST input credit cheering out of income tax rate and that applies to some of the vendors are not paying and then ultimately result into an income tax rate. So you have booked your provision for this. So any issue regarding any GST-linked dues which may come on in later date?

K. Venkatram Rao: No, no. As far as the income tax is concerned, that assessing officer has initiated the proceeding. And when we have a discussion with that actually. So we assume -- as a prudent measure, we thought that this much provision is required to make, that liability may arise. So that's why as a prudent practice, we have made it. As far as GST is concerned, there is no such issue on that. As far as GST is there, everything is in calm, and we are paying the GST and what are the credits we are getting in the books, it is all -- we are -- it is -- everything is regular. There is nothing issue as far as GST is concerned, sir.

Parikshit Kandpal: And lastly, sir, any donations pay during this quarter?



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- K. Venkatram Rao:** No, no, no. We have not made any donation.
- Parikshit Kandpal:** 9 months?
- K. Venkatram Rao:** Nothing, nothing. No, might be small donation will be there to our -- this -- some trust like that, small donation. Not a donation to any political party or like that. Nothing is there.
- Parikshit Kandpal:** Okay, sir. And lastly, just guidance for FY '24. So how do you -- I mean you said that FY '23 largely in line with FY '22 revenues. So in FY '24, what kind of growth you are looking at on the current order basis?
- K. Venkatram Rao:** FY '24, we are looking for around INR 4,000 crores of top line as of now. And FY '23, we expect that we could be able to close somewhere INR 3,000 crores, INR 3,500 crores actually. So FY '24, we are looking around INR 4,000 crores of top line.
- Parikshit Kandpal:** INR 3,500 crores in '23 and INR 4,000 crores in FY '24, right?
- Jalandhar Reddy:** Yes, yes, yes.
- Parikshit Kandpal:** I'm just sorry just one last question on irrigation. So can you expect now that the worst of the irrigation collection issue or the payment ratio is now behind us and do you not see any major upswing in the debtors in the coming quarters.
- S. Vaikuntathan:** Yes, I think the payments are now streamlined and then we hope that the package 4 payment because all the banks have started releasing and we also started establishing LCs in favor of BHEL, and work is now started moving fast and other payment as per the budgeted payment, they have promised to release on a monthly basis, which we expect the sales will continue, and we are also requesting them to increase the contribution.
- And as far as NHAI is concerned, there is no problem. We are getting payment in time. And as it all, standalone debt equity -- debt ratio is 0 only. We don't have any debt on standalone basis. But as our ED was telling, we're watching the situation so that at least we should build a project in a profitable manner. Taking the project is not the main criteria. And we should take the projects in a profitable manner. And I think these things may also work out because the NHAI also trying to change the stand and all, but it's taking time, it will come.
- Moderator:** The next question is from the line of Rahul Reddy from Reddy Investment. As there is no response from the participant, we'll move to the next question, which is from the line of Faisal Hawa from H.G. Hawa and Co.
- Faisal Hawa:** Sir, is it not time to move on to something, which is much more complex as far as infrastructure is concerned. Maybe a lot of smaller players are able to catch our hand in NHAI where balance sheet was previously the only differential. So would it not be more feasible for us to go to -- go for something like a BOT projects where the competition is much more limited or probably something, which is more complex to do as far as engineering is concerned?



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Jalandhar Reddy: Yes, you are right. It's the right time that we should start looking into some other areas like railways and irrigation is still I'm looking at. And other parts concerned, toll projects are definitely there is a lot of (inaudible) and concession agreement is also not that favorable to the bidders. It is compulsion. I'll give a last choice to that. If I'm unable to get any of the orders from many of these, then definitely, I'll look at those like also. But right now, I think my gut feeling is that I think the coming 3 to 4 months' time or 4 to 5 months' time, we shall be having a comfortable order book online, I think on hand.

Faisal Hawa: One thing is appreciated that we don't want to work at lower margins. That is something which is so appreciable about any management where they value their work and they value themselves. But here it's now looking very clear that people will just keep on creating committing suicide, as you said, by quoting lesser.

And we must be able to upgrade ourselves to really keep the company growth at a good level because from the last 2 to 3 years our top line has not really grown up efficiently. But to your credit, you have kept the balance sheet in absolute good order. And in fact, we are now cash positive rather than even having any debt on our end. So I mean, we are totally supportive of the management and -- but I think it's probably now time to up our game to something which is much more complex?

Jalandhar Reddy: Yes. That's what actually management is also looking keenly in railways and what is happening in metros and all that places we are looking at. See, the irrigation is concerned, it is having a little bit higher margins than highways. But once in quarter, railways, I think still that is a healthy margin in railways. So definitely, so we will start out the joint venture issues and get into those sectors also. And it's a complete engineering work pro mechanical work, definitely, we will be able to cope up and successfully go with that.

Yes. I mean to say that we are really giving a thought for entering into other sectors to make ourself comfortable and to keep our growth to be on.

Moderator: The next question is from the line of Shreyans Mehta from Equirus.

Shreyans Mehta: What is our strategy for monetization of the balance HAM projects? Will it be similar to what we have done? Or are we targeting any other strategy? That's one. Second one as far as railways is concerned, what kind of work are we looking at? And will we be open to taking projects from the railway PSUs or will be directly dealing with the Indian Railways?

S. Vaikuntanathan: With regard to the future, what all the HAM projects on hand, the management view -- the policy of the company is that, we don't want to accumulate projects or keeping them on hand. So we will take a right decision at that time, and a lot of inquiries are coming and we are also assessing those inquiries. And we will be working on some details and other things. As and when there is a progress, we'll definitely let you know.

Shreyans Mehta: Sure, sure. And on the railways?

- S. Vaikuntanathan:** If it's not the railways, ED was pointing out, I'm trying to find out some joint venture partners where we can directly bid for the projects. So we have to have an entry level so that we can bag more orders in the future. And a right partner is very essential at this stage. So that's being worked out. That also is a progressing stage. It will be -- we'll definitely inform the development.
- Shreyans Mehta:** And lastly, in terms of our capex, what's the guidance for FY '23 and '24 and what we have done until date?
- K. Venkatram Rao:** Till date actually we did capex of around INR 110 crores. And FY '23, we expect it will close somewhere between INR 140 crores to INR 150 crores. And next year, definitely, capex requirement will -- because this will take care of our entire, whatever the existing projects are there.
- And next year, capex requirements depend upon when we'll receive this project actually. So if we receive some projects in definitely Q3, then next year will be capex under in the same range of around INR 150 crores. Otherwise, it may depend upon when we receive that project.
- Moderator:** The next question is from the line of Bharani Vijay Kumar from Spark Capital.
- Bharani Vijay Kumar:** What is this progress on NHAI's proposal to reduce their contribution...
- Moderator:** I'm sorry to interrupt you, Mr. Kumar. We are unable to hear you. Can you please check?
- Bharani Vijay Kumar:** Is it better now?
- K. Venkatram Rao:** It is better, yes.
- Bharani Vijay Kumar:** Yes, sir. I was trying to understand what is the status of the NHAI's proposal to reduce their contribution from 40% to 20% on the HAM project?
- S. Vaikuntanathan:** It's still the decisional stage only because a lot of -- **en** getting a lot of pressure not to reduce, and they are also taking some time. Originally it was indicated that they will start the process. But going forward, we have to wait for that because of the coming election year and all, they will take up this aspect and all. So they are also waiting for that.
- So far, what are the draft concession agreements are there, it is not modified as of now. So what are the bids is there until March, actually. So we have seen that old clauses is still coming actually. There is no change in the draft DC as of now.
- Bharani Vijay Kumar:** Okay. Because this would have resulted in competition in reducing little bit, but since this is not...
- K. Venkatram Rao:** We expect that this should come early, but so far, it is not coming up.
- Bharani Vijay Kumar:** Okay. So in your discussion with NHAI, what are the thinking process or what are you thinking to address this aggressive booking? Because you think you remember back in 2018, similar

things happened when just to complete awarding their targets, a lot of projects were awarded, inexperienced players, financial projects took time and then projects got terminated. I mean from what commentary, I can hear from Jalandhar sir telling looks like we are going down the same path. Like why would NHAI allow it to happen? What are they thinking in your view to address this?

Jalandhar Reddy: So actually, really these concerns are not being thought by NHAI because they're happy and they're getting 30 low bid -- 30% low bids and they're really enjoying the situation of having so much for NHAI. But as...

K. Venkatram Rao: As ED was pointing out, the -- yes, any practical steps have not been taken up by NHAI till now. And now I think going forward, the NHAI has got only 5, 6 months time left because that they should complete their order book position. And afterwards they cannot come out with the order. So we have a...

Bharani Vijay Kumar: You mean the entire 14,000 kilometers left in Bharatmala soon to be awarded in the next 5 to 6 months?

K. Venkatram Rao: We have to -- we have -- is that fully in task. But the statements coming from them is they're going to do, they're going to do. We have to wait for that.

Bharani Vijay Kumar: So does that mean March 2023, that is next month is going to see a very large amount of ordering activity and order inflow for players, just like how we saw 1 year before election in 2018?

K. Venkatram Rao: Yes, that is being changed like that only. So we are also waiting for that. And they are also, the number of projects also announced, but we have to wait for that until the bidding is open finally come out.

Bharani Vijay Kumar: Right. Okay. My final question is on the lower margins in the company for in the first quarter. Any specific reason?

K. Venkatram Rao: Actually, for this year, actually, we are already telling that due to this input price pressure actually. If you see last 3 quarters, actually, we could be able to do between 18% to 19% of our EBITDA. Previously definitely, it was ranging in 20%. So now we expect that now input price should be stabilized, then we can attain that our same heavy data previously what we were telling. There is some pressure in the input prices. That's why that margin has slightly reduced, but we hope that once this price has stabilized, we could be able to achieve that.

Bharani Vijay Kumar: So maybe from fourth quarter or will it take more time?

K. Venkatram Rao: We have to see actually because right now, again, that RBI can increase the interest rate, how it will impact in the inflation if inflation is still controlled. So definitely, we could be able to match from the quarter 4 onwards.

Moderator: The next question is from the line of Vasudev from Nuvama.



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- Vasudev:** So most of my questions are answered. Just one thing on what is the status of payments with Telangana government?
- K. Venkatram Rao:** Sir, as I already informed around INR 650 crores of both debtors as well as unbilled spending. So last quarter, we received around INR 450 crores, actually. And this quarter, with the addition of work, it has last -- as of September, it was INR 900 crores, now reduced to INR 450 crores - - INR 50 crores and further work done, which has increased to INR 650 crores.
- So definitely, payments are there as far as package 4 is concerned, which is already funded by the bank. There is no payment issue there. As for other project is there like Vattem and Package 3, which is budgetary support. So definitely, based on the government what they have promised that they will release on quantum every month. Based on that, we expect that money should realized actually by March. So what are the receivables of their old receivables should be closed by March.
- Moderator:** The next question is from the line of Nikhil Abhyankar from DAM Capital.
- Nikhil Abhyankar:** Most of the questions are answered, but can you just give the inventory level, trade receivables, retention money and all the case we look at...
- K. Venkatram Rao:** Inventory as of 31 December is INR 187 crores. Inventory is there. Retention is around INR 241 crores as of December '22. And actually Shravan asked about consol cash. Consol cash as of 31 December is INR 145 crores.
- Nikhil Abhyankar:** So receivable unbilled revenue of payables and mobilization?
- K. Venkatram Rao:** Receivables is total INR 626 – INR 627 crores. So out of that, INR 335 crores is irrigation receivables and INR 267 crores is HAM receivables. As far as mobilization advance is concerned, it is INR 134 crores as of December. And what you asked also?
- Nikhil Abhyankar:** Sir, unbilled revenue and trade payables?
- K. Venkatram Rao:** Unbilled revenue is INR 490 crores. And trade payables is INR 211 crores.
- Moderator:** The next question is from the line of Jiten Rushi from Axis Capital.
- Jiten Rushi:** On the railway side, what type of projects you are looking to...
- Moderator:** Mr. Rushi, sorry to interrupt, may we request you to speak a bit louder?
- Jiten Rushi:** Just my question was on the railway projects. So we are looking to partner -- we're looking to partner. So what kind of work we are planning to do with the JV partners?
- K. Venkatram Rao:** Jalandhar is on the line...



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- Jalandhar Reddy:** I think normally, we have got the strength in the building of bridges and also track construction. So composite qualification of bridges and then station and track construction we are looking at it. So that joint venture is the management is looking for different -- discussing with different people. So once it is successful we'll let you know.
- Jiten Joshii:** Which station would be a station building at what...
- Jalandhar Reddy:** Station building work.
- Jiten Rushi:** And sir, metro would be the elevated metros, we shall...
- Jalandhar Reddy:** We are being say, number of flyovers, which is almost equivalent to metro only, like in Coimbatore we have done 2 big projects. Second project is going on, Salem we have completed. Metro, we are looking at, see, suppose we cannot -- suppose if we work directly, if it works lot to and if the payments are not problem then, they are looking at those type of work also.
- Jiten Rushi:** We will be going independently, right.
- Jalandhar Reddy:** Yes, yes, independent.
- Jiten Rushi:** And sir, on the inflows, as sir said we might target for a INR 4,000 crores to INR 5,000 crores at the end of March, but this can get lower because of the competitive intensity and INR 2,000 crores. So even -- so my question was if we are not able to win inflows in the next 3 to 6 months. So -- and are we in a position to compromise on the margin and go aggressively or we shall stick to our...
- Jalandhar Reddy:** Compromise on margin is not at all in our top of things because by compromising a margin is fairly the project will end up in NPA. That we don't want to do that. In fact, we are having 2, 2.5 years order book position on hand. And things will improve because if you see the earlier cycle also, it was like that.
- The order book was -- I know people have been quoting and we have quoted at competitive price, we have made to wait for 1, 1.5 years. But finally, the things have happened. So we are waiting for things to come so that at least we can bid at a profitable level. At this -- whatever we are -- our internal working suggest through that extent we should work for a profitable level.
- Jiten Rushi:** So what kind of ticket size you're looking for irrigation macros where competition is less?
- K. Venkatram Rao:** These are 2 things as ED was telling, even at the INR 2,000 crores order level book, if we get before March, at least at a project level something like that.
- Jiten Rushi:** I'm just saying what kind of value in terms of value you're looking for projects in irrigation?
- K. Venkatram Rao:** We are looking projects about 700 and above, 750 and above in HAM projects. So that will make a sense -- we don't want to go over these projects. And some projects are coming at 1,500,



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2,000 also. Those projects are also being slated before March, you will try to bid those projects and...

Jiten Rushi: One last question on the bookkeeping side. So sir, as you have said, employee cost was high last year -- last quarter and this quarter. So we had some payments bonus payment. So can you just break it down, like what is the recurring employee cost? And what would be the bonus for Q2 FY '23, Q3 '23?

K. Venkatram Rao: Jiten, I will check that number and let you know.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Sir, firstly, you were attributing to the fact of higher input costs here. So off late, sir, we have seen moderation in input costs. So could you please dwell more into it? How have the pricing of cost of material shape over the last 2 quarters?

K. Venkatram Rao: Jalandhar, sir?

Jalandhar Reddy: Can I get the question again, sir, please?

Saket Kapoor: Hello?

S, Vaikuntanathan: Repeat the question, sir.

Saket Kapoor: Sir, you mentioned about margins being lower because of higher raw material costs, which could not be passed on. So I would like to understand how the pricing of the key raw materials shaped up over the last 2 quarters? And going ahead, how is this basket shaping up?

K. Venkatram Rao: No major problem is with the steel and cement. First of all, you could tell you are taking today, I think INR 70,000, INR 72,000 which is going about steel as INR 57,000, INR 56,000 in the last months, I need to say in the December and the November as such. But sir, see, the levels are going up in a very steep way.

Second, the fuel prices, I don't blame much about fuel prices because they were standing almost 100, 102, 105 all these events that is happening. So the major is with the steel and cement. As of now, the cement and steel work if you take the Pump House work, which has got a lot of steel cement component only. The major is that.

Once you go to the Kerala project, almost 65% is about steel and cement work. I mean structures, there's flyovers and viaducts and all are there in that. And retaining all, even the drain almost I think INR 600 crores worth of drain is there in that project. So all are like coming up in this shape. So definitely, there is a cost inflation that is happening over the steel and cement and WPI is unable to support because of the -- you know the problem earlier, we have explained about it.



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Saket Kapoor: Sir, if going ahead, when we are comparing -- if a likewise comparison can be done with your peer, we have -- although sir, I maybe incorrect, we have found that other construction companies showing improvement in margins. And therefore, with the increased top line, the PBT levels have also improved. But in our case, even on a Q-on-Q basis, also, the numbers have been down. So other than this raw material part, is it our product mix altogether that there we are posting lower margins and hence the lower profit?

K. Venkatram Rao: No. Actually, due to last rainy season also, we suffered some late rainy season between April and up to December. As you know that almost the Kerala order book is about INR 4,000-odd crores is from Kerala, which is high rainfall area. And again, INR 1,100 crores was Mangalore, which is in the Karnataka that project.

So it's around INR 5,000 crores worth of contract is in complete under rainfall zone. So as such, there is a little bit lesser progress are also reported than expected. So due to which the overhead component has gone up.

K. Venkat Ram: Sir, other than this, this irrigation contribution also, if you see in Q1, irrigation has contributed almost 35%. In Q2, irrigation contributed as 15%. In this Q3, they contributed 23%. Even last year, Q3 also year-to-year, they have contributed 35%. If you see irrigation contribution, it also reduced actually for the last 2 years. So that's why when -- as you know, irrigation projects have good margins actually. So once their contribution is going to reduce in the turnover, that's why there is some impact in our EBITDA level. That is also one of the reasons actually.

Saket Kapoor: Okay. And sir going forward, what portion of our order book is activated to the irrigation segment? Out of the total...

K. Venkatram Rao: As of now irrigation is almost INR 1,800 crores irrigation projects are there. So it may not give much contribution to overall. If suppose in overall turnover of this year also next year also INR 4,000 crores, we will do. So irrigation may contribute maybe around 20% only, not more than that. So that's why that our EBITDA, what we are giving today is that is sustainable EBITDA because the contribution of the irrigation will be to the extent of between 20% to 25% max only.

Saket Kapoor: Okay, sir. And 2...

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: Sir, 2 points in terms of the 2 projects. Firstly the KC project. So when we are going to complete this project and also the Oddanchatram. In first quarter, are we able to complete this Oddanchatram HAM project?

Jalandhar Reddy: Yes, I'm going with it. Yes. Actually, sir the Karnataka project concerned, Magadi-Somwarpeth that is almost 115 kilometers we have completed out of 164 kilometers. As of there is no land on that. I think whatever the land there given we are trying to complete the entire portion, and we are going for PCOD, provisional completion by this March end.



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So after that, whatever the land they are giving, we would like to continue to work on that project as the margins are in line with whatever the projections we are making. So definitely, we will continue to do the work. The land part concerned, I think another 1 month they take to give us around 15 kilometer land which is in the forest and is a very advanced stage of granting permission to work on that project. So hopefully, we get that.

And there are some bypass areas where 3D is done and I think the payment handing over to the payment of the land owners, which is happening. So that is also in a bit of advanced stage. So I think another say 8, 9 months, we will be able to complete that project, but PCOD we are targeting by this March end for that project, sir.

Second, if you could top on that Palani project, Palani project, I think in the September, October -- September end, we have submitted the provisional completion with 32 days of bonus also according to original project completion date. If you take the extended days, it is up to March, March end, we have. So the PCOD submitted, and I think it is the NHAI to get the PCOD for us.

I think all the recommendations and everything, there is some additional settlement agreement, which is being asked by NHAI, which is getting concluded in coming 10, 15 days. So after that agreement, we were likely to get the PCOD on that. And there is around 8.5 kilometers which is late recently, they have given for they have cleared the land acquisition they gave us which is now going on. The project is going on the 8.5 kilometer stretch. So I think we will complete everything by May end.

Shravan Shah: Sir, apart from this, let's say, if we get the bonus, is there any other project where we can -- are expecting bonus in next 2 quarters?

Jalandhar Reddy: As of now, there is no other bonuses, which they are like to come up. I think expecting first, second quarter, we may get some claims over.

Shravan Shah: Any specific amount that you want to mention on the claim?

Jalandhar Reddy: Around INR 72 crores out of our Odisha project is out from the court decision, but we'll have to see whether NHAI is going to charge them further or they just go with...

Shravan Shah: And the last in the Bangalore, Mangalore project, Periya Shanti project, so anything you want to mention in terms of how the execution is going on and when we like to complete this project?

Jalandhar Reddy: The Bangalore Mangalore project, I think around 20% progress is achieved by now. And that also we have suffered high rainfall there. And there have been some issues with the quarrying also, the quarry permission we have received very late because environment clearance committee was not there.

Most of the time, the committee was not there. And later, they are appointed and they gave us the permission. Now things are in line. So the project is under execution, sir. Every month, we



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are able to make around INR 70 crores of revenue out of that project. So definitely, I think we may need around 5, 6 months additional time to complete this project because we are unable to do this project in time, which I'm expecting as because the rainy season and the quarry problems are accumulating.

Moderator: The next question is from the line of Vishal Periwal from IDBI Capital.

Vishal Periwal: One thing I think in your commentary, you've mentioned that you don't want to compromise on the margins. So what typically -- typical margin that we bid at? And then on -- related to that is like because when we are moving in the opportunities of metro railway, so margin itself will be lower than what we get in irrigation and roads HAM, isn't it? So that may be a compromise in one way or another?

K. Venkata Ram: Yes. I think our ED also has expressed -- explained earlier that the company doesn't want to sacrifice the margin and then accommodate the orders, number one. Number two is, we have stated earlier also, there are highway projects, EBITDA level up to 15%, 16% should be a reasonable margin that is being expected.

Maybe if there is -- project of fine tuning for the quarter on availability is there, maybe 1% or 2% less maybe also be there. But lesser than that, it will be very -- you cannot predict because the price of -- yes, yes.

Just I'm explaining that because as initially in the irrigation sector so we thought we could not be able to get the good margin. But after imprinting the irrigation sector with our execution capability and the skills we could be able to get better margins. So the same way in the new -- if any new sectors, we are entering, definitely, we can say some fine-tuning in our margin, but that is to be our expected level only. And after entering into that sector with our skills, we could be able to make more actually, profit. Definitely, in the new sector is there, then we will look into some fine-tuning in our margins.

Vishal Periwal: Second, will it be possible to give some commentary on this taxes provision that we have done, and in particular because in that press release you mentioned, I mean, we've taken it from a particular year. So FY '17 until now, so what is some background that has gone into it? So since the final assessment is pending, so I mean, are we getting certainty like probably this could be the number which, which once it order from out?

K. Venkatram Rao: Sir, as you know, the income tax practice also when department will come for any search actually. So they will do actually, they will open the books for the almost last 5 to 6 years. That is a procedure actually in the income tax when search is there under 132. So same thing is carried out in our case also.

And after during search operation, what are the information is asked for and after that, what are the -- we have all the information provided actually during the search even after this. And after deliberation or discussion with assessing officer actually. So we -- as a potent major actually,



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we thought that this much liability may arise actually. So as a prudent practice, actually, we have accounted that liability, and we expect that there would be any further liability on this account actually as far as the income tax is concerned.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: Sir, so many railway stations are developing. So you must be saying for that, many metro projects are also noted. So a lot of work is there. But what is the management cup of tea, you know better, we do not want to have intention deeper to Sun. So since in road project too much competition is there. What is our further planning for next 3 to 5 years?

S. Vaikuntanathan: As far as the roads are concerned, the Bharatmala itself, it will take another 4 to 5 years, a lot of highway networks have to be completed. So it should come. Now the percentage, it is about allowing so many new entrants who can compete at a very lesser price than even the cost of the work project. That is creating problem. It's not that the work is not there.

So -- but this trend may not continue. This even in the past also, whenever this happened, the trend may not happen. So highway sector is definitely available from the next 5 to 6 years, number one. Number two is the irrigation sector, we have already built up our irrigation construction capacity in the irrigation and also the lift irrigation program and other things.

So we are having future in that even if the river linking program is at any cost, it has to come on one day or that, we will have an ordering on other selves. Individually, we can bid for the project to the extent of INR 1,500 crores to INR 2,000 crores. That is no question.

And coming to the flyovers. We have done a number of flyovers. To start with, we have done - taken up in Tamilnadu, the Salem-Coimbatore, and now we are doing a connecting flyover to the Coimbatore airport, which is around 12 kilometers. 12 kilometers flyover is very big. So that we are doing it and the project is going as per that.

And there are a number of flyovers that is being planned and under the urban development infrastructure, which is yet to come because some of these -- see mainly the problem is the state governments are not having funds. So that's why the project is getting delayed. But with this new infrastructure a lot better than the other thing and then funding through state governments and all, the things may look up. That is true.

But in the case of railways, yes, we are now looking -- similarly, we should have in the entry level, we should have a good partner so that we can have a bidding capacity. So we can go at a later stage on a very bigger projects and all. So that is being explored by the management, and we will communicate as and when it is being worked out. So this is the situation sir.

Ravi Naredi: Sir, my second question is NHAI able to raise money through Invit recently. So what is soon after this, how much more kilometer road may be awarded in 12 months time trend?



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Jalandhar Reddy: They are planning to award a 14,000 kilometers. But the time line, we cannot say because of so many ifs and buts, availability of land whether entire 90% land is available in all projects and other things that we are waiting. But the 14,000 kilometers has to be built in the next 1 year without any fail. So that they can complete their -- whatever they have planned. We all wait for that how they are planning and other thing.

Ravi Naredi: But the management is optimistic to get INR 4,000 crores to INR 5,000 crores in next 3 months, right?

K. Venkatram Rao: In any business, we should have optimism, but...

Ravi Naredi: No, definitely, definitely. You are the centers that you told...

Jalandhar Reddy: INR 4,000 crores, INR 5,000 which we are looking in upcoming years, not 2 years, not in 3 months.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Firstly, sir, as you were speaking about the margin contraction because of the raw material input cost being at elevated level. So going ahead also, sir, what should be the normal margin we should expect since the order booking is mainly towards the road and the highway segment, majority of the same. So what kind of number and what should be the way forward in terms of how should the revenue growth currently looking for the next financial year and also how things are shaping up for this quarter?

K. Venkata Ra,: Sir as I explained earlier also that EBITDA is definitely actually kind of initially, we told that our EBITDA will be somewhere 15% to 16% annually. But when this irrigation project has come actually in our kitty, then our EBITDA has always jumped to between 19% to 20%. But again, if you see, as of now, no irrigation project is only just 22% in our order book.

And we expect that the next 2 years onward, their contribution is definitely going to be negatives actually, if we are not getting any irrigation project too. Because once irrigation project contribution is reduced to, definitely, we did also -- accordingly, it will also be -- there will be some decline in EBITDA.

So what has happened actually in the last 3 quarters, this is the reason. Because if you see last year, entire year, it has contributed almost 30%, 35% irrigation and the same is also the same position. But now they are contributing between 15% to 20%, actually. In last quarter, it's at 23%. So definitely, in future also, what we have expected is, what are the EBITDA, what we are seeing between 18% to 18.5%.

So that is the only sustainable level as of now. And in future also, now with this NHAI, there is a lot of bidding is there, a lot of competition is there and HAM project to get HAM project with that EBITDA has really become very challenging. So what we are giving that EBITDA, I think this is only going to be the sustainable EBITDA. As far as turnover is concerned, this year,



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actually, we are expecting that we could be able to close between INR 3,500 crores. And next year is our target to achieve around INR 4,000 crores.

- Saket Kapoor:** And the EBITDA margin is in the band of 15%?
- K. Venkata Ram:** We will -- we are telling around 16% to 17%, but we could be able to give between 18% to 19%. That is our guidance is between always 16% to 17%, but we could be able to achieve between 18% to 19%.
- Saket Kapoor:** What is the 9 months number for us? I've not calculated the EBITDA margin for the 9 months?
- Jalandhar Reddy:** For 9 months, it is 19.85% actually.
- Saket Kapoor:** And this is likelihood for -- basically be lower when we take the blend number for the entire year.
- Jalandhar Reddy:** Because this 9 months include, if you see in Q2, actually...
- Saket Kapoor:** Yes, irrigation project was there.
- Jalandhar Reddy:** Exceptional -- not exceptional. One is bonus is there, INR 7 crores. And one of the JV actually we have signed the assignment deed due to that it is higher in the Q2. If you take out that, then it is between 18.5% range only.
- Saket Kapoor:** One small point with respect to that income tax department search under Section 132, sir, what are the key findings in their primary report where have the -- if I may call, where have been the error on the part of the company that they were -- they have been able to raise demand. And what steps the management have taken or are in the (inaudible) said these are not repeated.
- And also, sir, this also includes -- there is also one thing about the GST part, where are some input credit issue is also there in the system pertaining to the construction sector and a lot of inquiries are happening in that aspect also. So where are we in terms of this input credit from vendor issue that the vendors are going for bogus claims have not submitted GST, and hence, the input credit by the payment company, the final company, the company like us won't be receiving the same. So any update on these 2 aspects that you would like to share?
- K. Venkatram Rao:** So number one is with regards to the income tax department, now this is just now the assessment has -- there is no demand as on date. Let us be very clear. And they are just taken out the assessment for the last 6 years as per the procedure. And when there are a lot of -- about 6 years at one stop, they may want to know some expenses they may come across my expenditure to be allowed -- disallowed or so many things may crop up.
- So in such case, we have taken for the entire 6 years, there may be a possibility as for provision has to be made. So it's just been made. But we cannot comment until their assessment is complete. That is one thing.



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But to be as a prudent policy, it's better to provide both income tax and the interest for the past year. That's what has happened. As far as the GST is concerned, we have regular payments of GST. And yearly, approximately, we are paying around INR 275 crores -- around INR 275 crores to INR 300 crores GST we are paying and our returns and all are up-to-date. So there is no such issue as of date.

Saket Kapoor: No, sir, I was particularly speaking about the input credit issue that has cropped up for the construction sector, wherein there are set of companies which are facing this issue. So we are not there in that bracket. That is what you are confirmed?

K. Venkatram Rao: Yes, as far as GST input is there, there was some issues in this sector. Definitely, we agreed that actually. And it has occurred this sector. But as far as KNR is concerned, in GST, actually, we are getting almost 99% of our input. And definitely, because when GST department will go to the subcontractor accounts actually. And he will see that he could not be able to properly explain actually that is the input. So definitely in this sector, there was some issue as far as subcontractor is concerned. But as far as KNR is concerned, we do not face any issue as such.

Saket Kapoor: Okay. And income tax also, sir, you are mentioning that there is no demand as such since the assessment is not over?

K. Venkatram Rao: It is just the -- they have started the proceeding as far as there is no such demand, actually.

Saket Kapoor: Okay. So on the basis of this preliminary understanding, yes, yes.

K. Venkatram Rao: As a basis of prudent measure actually, that company has provided that estimate.

Saket Kapoor: But you must have made the -- on the basis of some finding, you came to a conclusion that these are the set of corrections that needs to be done for this period and hence this provision.

K. Venkatram Rao: We expect the company expect that there may be some income tax demand may come actually based on that. And anyway, this matter is pending with assessing officer actually as of now.

Saket Kapoor: When can we hear the final word on it, sir? They must have the date by which they will conclude it?

K. Venkatram Rao: It will take almost 6 to 1 year actually to complete the entire assessment proceeding will inform when it is completed.

Saket Kapoor: Right, sir. And a lot of, sir, value erosion has happened for your investors. Of course some selling by promoters last year, if I'm correct me there also. So what is the thought process currently that this was -- our company was one of the pioneers for wealth creation for the equity investor.

But that has not been the case over the last 1.5 years and sentiment have remained subdued. So what's the message from the promoter category? And I think there were some market sales also that did happen from the promoters part. So what should investors take home, sir?



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K. Venkatram Rao: Yes. The wealth creation has happened because the company, even in spite of corona, they have required bonus. And the company is continuously paying the dividend. And yes, definitely, whenever the opportunities are there, management, we do not fail the duty. Now we will hope for the best sir.

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

S. Vaikuntanathan: Hello. Yes. Thank you for joining us on this call. Please reach out to our Investor Relations consultant and Strategic Growth Advisors or us directly should you have any further queries. Thank you.

K. Venkatram Rao: Thank you.

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