



“KNR Constructions Limited Q3 FY'21 Earnings
Conference Call”

February 12, 2021



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LIMITED**



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Moderator: Ladies and gentlemen, Good day and welcome to KNR Constructions Limited Q3 FY'21 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 for 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 to everyone present on the call. We welcome you to our Q3 FY'21 Earnings Conference Call. Today, I have Mr. K. Venkatram Rao -- General Manager, Finance and Accounts and Strategic Growth Advisors, our investor relations advisor present on the call.

I hope you and your loved ones are safe and healthy.

I will first start with an “Industry Update.” Along with our company, infrastructure companies across the board have witnessed the marked improvement in execution during Q3 FY'21 due to sharp bounce back, in labor availability to pre-COVID levels, smoothening of raw material, supply chain and passage of monsoon season. We continue to witness sustained awarding momentum across roads, urban infra, water infra and irrigation segments. Timely disbursement of payments from NHAI along with low interest COVID loans has improved the overall sentiment for the infrastructure sector. The Ministry of Road Transport and Highways has initiated a slew of relief measures like a shift from milestone-based billing to typically a range between 45 to 75 days to monthly billing, and release of retention money in proportion to the work already executed. These measures have significantly helped to ease the pressure on working capital, inventory, supporting the road contractors. The road construction during the last nine months was 8,000 kilometers higher than the approximate of 7,600 kilometers in the same period during FY'20. Adjusting for the first 20 days of April 2020, wherein no construction activity was allowed. This is a great achievement. The order bid pipeline across road, urban infra, water infra and railways is expected to remain robust and gain further traction as in the union budget. The gross budgetary support towards the capital expenditure has been increased significantly with the infrastructure being the key beneficiary. The government relaxed the fiscal deficit target to meet the huge funding requirements for productive asset creation with Bharatmala Pariyojana and the National Infrastructure Pipeline, getting a major fillip. Capital outlay for the Ministry of Road Transport and Highways has increased by 35% to Rs.1.98 lakh crore in 2021-22 budget, estimates from Rs. 1.47 lakh crore in 2020-21. The central government has also provided a capital of Rs.0.45 lakh crore as a support for the Infrastructure Pipeline. To meet the significant increase in investment required as per National Infrastructure Pipeline, the government has made an announcement of setting up a new development finance institution with the capital of Rs. 20,000 crores to improve the financing availability for the infrastructure. The aim of the



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institution would be to leverage and provide a debt over Rs.5 lakh crore to the infrastructure sector over the next three years, thereby helping to bridge the infrastructure financing deficit. NHAI has set an ambitious target of awarding highway projects in the range of 4,800 to 5,200 kilometers, higher than the 4,500 kilometers original target the Authority has set for itself on FY'21. NHAI has awarded 2,423 kilometers national highways till December 2020. NHAI has awarded 3,211 kilometers for the whole FY'20. Considering the huge bid pipeline of Rs. 72,000 crores and with the second half of Q4, historically witnessing a substantial awarding, we expect significant order inflows for the road and highway sector in the near-term as well as in FY'22. HAM constitute a major share of 55% in the order pipeline, followed by EPC at 38%. Two projects are planned to be awarded through the revamped BOT toll models. About 60% of projects are located across the states of Andhra Pradesh, Karnataka, Kerala, Punjab. Irrigation and water infra are also expected to get major impetus in the states of Telangana, Andhra Pradesh, Uttar Pradesh where strong awarding momentum is expected to continue. The order bid pipeline across various verticals road, urban infra, water infra and railways will continue to remain healthy over the long-term on back of major capital allocations like over the next five years under the National Infrastructure Pipeline. The government envisages developing of 34,800 kilometers of highway at a cost of Rs. 5.345 lakh crore under the Bharatmala Pariyojana. So far, the contract has been awarded for a length of 13,521 kilometers roads and a detail project report for 16,500 kilometers is currently in the pipeline. NHAI also plans to raise about Rs.10,000 crores in the current calendar year by monetizing road assets of about 1,200 kilometers with an objective to deleverage itself and enable greater funding for Bharatmala Pariyojana.

Toll Collection: Q3 FY'21 witness a marked improvement in toll collections on the back of increased movement of both passenger and commercial vehicle. As per ICRA, the toll collections in September to November 2020 on an average growth by 13%, implying a growth of 8% to 9% traffic, one-third of traffic growth was on account of passenger car units and two-third on account of commercial vehicles. The better-than-expected recovery in traffic has arrested major slippages in the credit profile of various toll road assets. According to ICRA, toll collections are likely to grow 14% to 15% in FY'22 on a low base in FY'21 as the traffic is anticipated to increase by 5% and toll rates was expected to increase by 3% to 4%. To achieve 100% cashless tolling at the toll plaza across the country, electronic toll collection system, FASTag will become mandatory for all vehicles from February 15, 2021. NHAI has also decided to do away with a requirement of maintaining a minimum amount in south side with an aim to ensure seamless movement at electronic plaza with more than 2.5 crore users. FASTag currently contribute about 80% of the total toll collection. Daily toll collection through FASTag has crossed Rs.89 crores. This is substantially plus the total revenue linkages.

Now coming to the "Key Updates of the Company." The operational effectiveness across all our projects reached a pre-COVID level as workforce got bolstered to normal levels. On 5th October 2020, we had received appointed date for our fifth HAM project, Oddanchatram to Madathukulam, Palani HAM project, which is worth Rs.920 crores.



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The physical progress as on 31st December 2020, our five HAM projects is as follows: Chittoor to Mallavaram is at 72.1%; Ramsanpalle to Mangloor is at 64.2%; Trichy to Kallagam 58.9%; Magadi to Somwarpath at 22.4%, Oddanchatram to Madathukulam is at 14%. During the quarter, the execution was equally driven by all our five HAM projects. Our deal to divest three HAM projects is on track. Out of Rs. 624.28 crores equity requirement for all HAM projects, we have already invested Rs. 325.57 crores as on December 31, 2020. Our incremental equity requirement stands at Rs. 90 crores, Rs. 139 crores and Rs. 50 crores for FY'1, FY'22 and FY'23, respectively. You can refer to Slide Number #26 of our investor presentation for details of each HAM project. The total collection for our Bihar project, Muzaffarpur-Barauni in Q3 FY'21 and nine months ended FY'21 is Rs.11.43 crores and Rs.33.68 crores respectively.

We have invoked force majeure clause as per the concession agreement for the reduction in toll collection in the sector and are under discussion with NHAI for eligible compensation.

Coming to order book position, during the quarter we have received an order for upgrading; Cheyyur--Vandavasi Polur including East Coast Road link (ODR) Cheyyur-Panayur Road to 2 laning in the state of Tamil Nadu on EPC mode, aggregating to Rs.539 crores (Rs.604 crores including GST).

As on December 31, 2020, we have an outstanding order book of Rs.7,664 crores, EPC road projects and captive HAM projects constitute 55% of our total order book, while irrigation projects constitute the remaining 45%.

Client wise, 70% of our order book is from third-party clients and balance 30% is from captive HAM projects. Our third-party non-captive order book which accounts for 70% of the total order book is skewed between state government contracts with 54%, whereas 3% is from central government and the balance 13% order book is from other private players. Our current order book position is robust and provides visibility execution over the next three years.

Robust to project award pipeline and ready DPR under Bharatmala project should accelerate awarding activity in the last quarter of this financial year. The process of submitting bids for road projects are currently underway. The average ticket size of the tender is about Rs. 1,000 crores. Based on our short-listed projects and bidding pipeline for the current financial year, we are targeting a further order inflow of around Rs. 3,000 crores to Rs. 4,000 crores in the forthcoming remaining period of this fiscal year. The substantial portion of our dues for irrigation projects in the state of Telangana has been cleared by the state government. We have received about Rs.540 crores till date and expected to receive remaining outstanding amount in near-term. This amount includes billed and work in progress. At the same time, we have just started our operation at one of the irrigation projects sites.

Now I request Mr. K. Venkatram Rao, our GM, to present the results for the quarter and nine months ended 31, December 2020. Over to you.



K. Venkatram Rao:

Thank you, Sir. Let me take you through the Q3 and Nine Months FY'21 Standalone Financial Performance. We recorded 23% year-on-year growth in our total revenue from Rs.558 crores in Q3 FY'20 to Rs.686 crores in Q3 FY'21. EBITDA came in at Rs.135 crores in Q3 FY'21, registering a growth of 9% as compared to Rs.124 crores in the same period last year. EBITDA margin in the current quarter stood at 19.7%. Profit after tax stood at Rs.78 crores in Q3 FY'21, up by 93% as against Rs.40 crores post exceptional item of Rs.7 crores in the same quarter last year. In Q3 FY'21, for one of the old projects we have received an interest receipt of about Rs.12.60 crores against delay in receipt of the bill. We have registered the same as other income. Correspondingly, the same amount was passed on to the subcontractor which is reflected in increasing in the finance cost in this quarter. Other income also includes some of the write-back of the old liabilities.

Now, coming to our Standalone Performance for the Nine Months FY'21. Revenue from the operations in nine months FY'21 was up by 13% to Rs.1,767 crores from Rs.1,569 crores in nine months FY'20. EBITDA witnessed a growth of 4% from Rs.340 crores in nine months FY'20 to Rs.354 crores growth in nine months FY'21. Our EBITDA margin in nine months FY'21 stood at 20%. PAT for nine months FY'20 stood at Rs.167 crores, registering a growth of 6% as against Rs.158 crores in the same period last year excluding the exceptional item of Rs. 11 crores on account of sale of 100% stake in KNR Walayar Tollways project to Cube Highways. The net profit for nine months FY'21 stands at Rs.178 crores. The debt-equity as on 31, December 2020 is 0.01 times as compared to 0.12 times as on 31st March 2020.

Summary for the Consolidated Performance is as follows: The consolidated revenue for the quarter grew by 22% to Rs.735 crores in Q3 FY'21 from Rs.604 crores in Q3 FY'20. EBITDA in Q3 FY'21 witness a growth of 10% to Rs.177 crores as compared to Rs.161 crores in Q3 FY'20. EBITDA margin in Q3 FY'21 stood at 24%. Net profit for the quarter was Rs.92 crores, registering a growth of 93% as compared to Rs.48 crores for Q3 FY'20.

Now, coming to our Consolidated Performance. In nine months, FY'21 revenue from the operations in nine months FY'21 stood at Rs.1,913 crores, up by 11% as compared to Rs.1,722 crores in nine months FY'20. EBITDA witnessed a growth of 10% from Rs.435 crores in nine months FY'20 to Rs.478 crores in nine months FY'21. Our EBITDA for nine months FY'21 stood at 25%. PAT for nine months FY'21 witnessed a jump of 64% to Rs.288 crores from Rs.176 crores in nine months FY'20. The net debt to equity as on 31, December 2020 stood at 0.04x as compared 0.48x as on 31, March 2020.

With this, we will open the floor for question-and-answer.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.



- Mohit Kumar:** Sir, three questions. First, are we looking to revise our guidance upward for FY'21? I believe the guidance you had given for FY'21 was Rs. 2,400 crores and any kind of revenue guidance for FY' 22?
- S. Vaikuntanathan:** We have given earlier the guidance for this year roughly Rs.2,500 crores. So, though it is improving, we want to just wait till the March, and we want to stay at our own guidance of Rs.2,500 crores. For FY'22, normally we suggest that 15% to 20% we will go for increase in the revenue which will be maintaining, but see time is there still for FY'22, so maybe the second quarter we will be in a position to ascertain exact how the trend is going.
- Mohit Kumar:** Secondly, has the work started at Kaleshwaram Irrigation project awarded in Q1 FY'21, I think we have two projects right which you won in Q1?
- K. Venkatram Rao:** One project actually we just started, not at full pace, but we think that in Q1 FY'21 actually we will start the full-fledged.
- Mohit Kumar:** Thirdly, on the receivable side, I think we had Rs.740-odd crores from Telangana, and I think you mentioned Rs.540 crores is balance. Am I right in saying that?
- K. Venkatram Rao:** No, in last concall, we told that actually around Rs.680 crores is outstanding, against that around Rs. 540 crores of money we received from November till as of now.
- Mohit Kumar:** From that amount Rs.140 crore is left?
- K. Venkatram Rao:** Yes, on the old liability around Rs.140 crores is left.
- Moderator:** Thank you. The next question is from the line of Parikshit Khandpal from HDFC Securities. Please go ahead.
- Parikshit Khandpal:** Now whatever is outstanding, so, that is standard right, leaving beside that Rs.140 crores of the old receivables?
- K. Venkatram Rao:** Old is Rs.140 crores and as of date around Rs.290 crores is outstanding, which included unbilled also. So, definitely Rs.140 crores amount we are expecting that definitely by March we will receive. Whatever the old liability, definitely is going to close by March.
- Parikshit Khandpal:** Second question was on your total order inflows. Financial year-to-date, how much is the total order inflow?
- K. Venkatram Rao:** Around Rs.4,000 crores we received in this year.
- Parikshit Khandpal:** You are targeting Rs.3,000 crores to Rs.4,000 crores targeting in the fourth quarter?



- K. Venkatram Rao:** Actually, what is happening, as you know, because NHAI is awarding lot of projects. So, that is why this is an opportunity to get that but if you see Rs. 4,000 crores that is sufficient, but on awarding side, definitely they are giving a lot of the projects. So far, we have almost bidded around 15 HAM projects as of now including one EPC project. So, we are expecting definitely at least two to three projects to come. So, when opportunity is there, we are seeing that and that's why we are targeting that at least Rs. 3,000 crores to 4,000 crores we should get by March.
- S. Vaikuntanathan:** More and more we will be completing our existing three projects by this June.
- Parikshit Khandpal:** So, we may end up this financial year somewhere close to about Rs.10,000 crores of order backlog, Rs.3,000 to Rs.4,000 crores of new orders?
- K. Venkatram Rao:** Definitely we are targeting. Let us hope so we should get.
- Parikshit Khandpal:** So, I think initially Mr. Vaikuntanathan has given a very strong commentary on overall budget and government focus on infrastructure. So, we are largely present in roads and state government irrigation projects. So, how do we capture this because what we understand is that a lot of increase in the competitive intensity on the ground because of dilution of qualification norms. So, on one side, we have more players coming in, second, we are seeing that increased competitive intensity in HAM projects. So, beyond roads and irrigation which is partly a state subject, any other segment where we have started building capacity, building teams or looking to bid, if you can throw some light on the diversification side?
- S. Vaikuntanathan:** We are also bidding in urban infra which you know we got a very big flyover in Tamil Nadu. We are also on the lookout for the urban infra and water infra also our focus is there. Already we have got, and we are also looking at it. Now as on date order on hand, we have got visibility of 2.5, 3-years. So, by the time things will also materialize some of these urban infra, water infra, road HAM projects.
- Moderator:** Thank you. Next question is from the line of Kalpit Navrekar from Allianz Global Investors. Please go ahead.
- Kalpiti Navrekar:** So, this Rs. 30-40 billion worth of order inflow that you are targeting for fourth quarter, could you share some color on obviously coming from NHAI or coming from the irrigation or is all of it from HAM or EPC or what is the breakup?
- K. Venkatram Rao:** It is going to blend between HAM and EPC, because we have almost around 15 bids worth around Rs.20,000 crores, out of that actually we are expecting. So, it definitely is going to be a mix of both EPC and HAM because EPC also we quoted. So that is why we are revising our target by seeing how NHAI is awarding this project, so based on that, we have just revised our guidelines for order take for this year.
- Kalpiti Navrekar:** Could you provide some guidance on order inflow for FY'22?



- S. Vaikuntanathan:** Let us all hope that trend continuously go like that. By the year end we maybe in a position to say.
- Kalpith Navrekar:** Like Rs. 70-80 billion of FY'21 can sustain in FY'22?
- S. Vaikuntanathan:** This Bharatmala project will continue for another four to five years. So, there is no dearth in the orders to be received in the case of urban infra or HAM project or water infra. As on date, we are having a sufficient visibility there. So, we will plan accordingly as per the days to come.
- Kalpith Navrekar:** This urban infra and water infra you are talking about, are budget announcement relevant to the projects you are targeting and are you qualified to do projects in these two categories, could you shed some color?
- S. Vaikuntanathan:** The urban infra we have qualified. Five junction flyovers in Salem, we have completed successfully and we have also completed one flyover in Coimbatore now. What the flyover which we are doing under urban infra is 11.5 Kms flyover, it is the largest one in Tamil Nadu. This all give additional qualification for you to bid for bigger projects like the metro projects and other projects. And similarly, the water infra we have done reservoir, dams and also now the pump also we are doing now. This will enhance our eligibility criteria in the future projects.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** So, what would be our debt number at the standalone level at the end of the quarter?
- S. Vaikuntanathan:** Gross debt is Rs.16 crores, but we have bank balance of Rs.43 crores, net is negative only.
- Vibhor Singhal:** So, you mentioned that basically in this quarter, we had a Rs.12 crores of basically interest from the earlier projects, which is there in the exceptional other income, and which we passed on to the subcontractor, which led to the higher interest expense. So, if I see Rs.18 crores of interest expense in this quarter, and if I remove that Rs.12 crores, so our recurring interest expense was around Rs.6 to 7 crores. Is that understanding correct?
- K. Venkatram Rao:** Yes, correct. this is not only interest expenditure, it includes actually what are the bank charges like BG commission, LC commission, include all the finance costs actually, it is the finance cost, because we have repaid the loan to our promoter also, so that is why there is no interest for this quarter and now around only Rs.57 crores is outstanding mobilization advance, on that interest what we have to pay to NHAI, that is also really going to be reduced. That is why if we see that around this Rs.5-6 crores is finance cost.
- Vibhor Singhal:** Going forward, I think this Rs.5-6 crores should remain stable?



- K. Venkatram Rao:** That is subject to utilization. Because now this quarter we have received a lot of fund from our irrigation projects and we have received proceeds from sale of Walayar in the end of the last quarter. So that is why third quarter there will not be much utilization of the working capital, that is why interest is reduced but based on the requirement and utilization of working capital, it may vary actually, not much.
- Vibhor Singhal:** My second question was on the margins front. I think we have reported very strong margins at around 40%. Do you believe these margins will be sustainable going forward in terms of mix of the order book changing towards irrigation or in fact because of irrigation projects, the margins could be higher or so?
- K. Venkatram Rao:** What we have given guidance is between 17% to 18% is sustainable EBITDA as of now, but definitely once this irrigation project has started contributing to the top line, the margin has been improved. Right now, we have around 45% order of irrigation, that is why we expect that we should continue this margin till our irrigation projects are exhausted.
- Vibhor Singhal:** My last question would be on the HAM. So, as we see, I think a couple of quarters back, there was a change in the amount of equity for two of the HAM projects while the deal value as I see the presentation the numbers have remained the same. So, we can basically assume that these numbers will remain the same in terms of the equity and the debt component of the project and these are being finalized and frozen right sir?
- K. Venkatram Rao:** Because these three projects are almost over, we are trying to get PCOD by end of the Q1. What are the composition for debt-equity what mentioned for these three projects, it will remain same.
- Moderator:** Thank you. The next question is from the line of Parvez Akhtar Qazi from Edelweiss Securities. Please go ahead.
- Parvez A Qasi:** A couple of questions from my side. I am sorry, I missed the consol debt and the consol cash. If you could provide that? And, you mentioned about Rs.12 crores interest income from some projects. So, will it be possible to repeat it?
- K. Venkatram Rao:** In Karnataka state, we have executed one project 10 years back. It was back-to-back given to subcontractors. So, we have received around Rs.12.5 crores from the interest income, delay receipt of the bill settled from the authority. And as being this is a back-to-back project, we have passed actually this amount to the subcontractor. That is why other income has increased by Rs.12.5 crores, same way finance cost also increased by Rs.12.5 crores. And in respect of the consol debt, Rs. 750 crores as of December 2020, and consol cash will be around Rs. 75 crores.
- Parvez A Qasi:** With regards to our depreciation trajectory, for last couple of quarters have been kind of lower if we compare let us say with Q3 and Q4 of last year, so what do we expect the depreciation trajectory to be let's say in Q4 and in FY'22?



- K. Venkatram Rao:** Q4 will be in the same range only, and definitely FY'22 because we are expecting that one irrigation project, we are going to start by Q1. Because we have to buy some of the machinery for that and we are expecting some of the projects in this year also. Next year, we have to really assess actually how much it will work. It may increase a little bit from this year, next year there is some increase in there.
- Parvez A Qasi:** What is the CAPEX that we have done in nine months and what is the plan for the future?
- K. Venkatram Rao:** Nine months we did around Rs.60 crores of the CAPEX. So, this year we may end by Rs.100 crores.
- Moderator:** Thank you. The next question is from the line of Sachin Wankhade from Aditya Birla Sun Life Asset Management. Please go ahead.
- Sachin:** This is Sachin from Birla Mutual Fund. So, my question is with respect to the working capital. So, just wanted to understand since there is a lot of order book which is in pipeline and plus, you're sitting on about Rs. 7,000 crores of order work, with respect to the fund based line from the banking system, is it adequate to take care of your working capital or are you going to approach the banks for enhancement of working capital?
- S. Vaikuntanathan:** As it is, the sanction limits even we are not fully utilizing, there is a cash balance of Rs.43 crores. So, whatever the sanction limit is quite sufficient for us and with the cycling of bill coming at the faster rate we feel that we could manage with the sanction limit. We will not go for the increase in limit.
- Sachin:** So, what will be approximately your working capital cycle maybe in terms of amount or number of days if you are approaching or estimating from Rs. 2,500 crores of sales?
- K. Venkatram Rao:** Working capital has come down to around 55 days. it has increased a little bit from the last quarter but the reason being that actually, because around Rs.333 crores of the HAM receivables, what is lying in our books and we are not drawing the debt from our HAM SPV. What is our understanding is that when there is a money requirement for the parent company, then only will should go for the disbursement from the bank. So, that's why this quarter there is a little bit enhancement in the working capital but per se but if you see third party receivables is on very lower side.
- Moderator:** Thank you. The next question is from the line of Shravan Shah from Dolat Capital Markets. Please go ahead.
- Shravan Shah:** Sir, on the CAPEX front, this year you said, but next year once the irrigation starts, do we require further CAPEX and broadly how much CAPEX are you planning for next year?



- K. Venkatram Rao:** Next year we have not assessed, but it may be somewhere around Rs.100 to Rs.120 crores is what we are thinking.
- Shravan Shah:** I think last time we have talked about elements of completing the Hubli-Hospet by March, but this quarter since the execution is lower, when do we expect the Hubli-Hospet to be completed?
- K. Venkatram Rao:** By June we should be able to complete that project.
- Shravan Shah:** These two new irrigation projects that we are expecting to start in a full swing from the next quarter onwards?
- S. Vaikuntanathan:** One project we will start sooner, maybe by the end of March or so. Other project it will take some time.
- Shravan Shah:** The bigger one you are saying 1,600 crores one would be starting from March?
- S. Vaikuntanathan:** Bigger one we already started. We started excavation for the project and the concreting work will also start in the month of March.
- Shravan Shah:** So, in this quarter roughly how much execution can be expected from these both projects totaling around...?
- S. Vaikuntanathan:** There will be no huge execution in this quarter, the substantial execution will be in the next quarter only, but we will commence the operations.
- Shravan Shah:** And Venkat also sir has talked about the three HAM projects to be completing by June?
- S. Vaikuntanathan:** Maybe by this June.
- Shravan Shah:** So, the entire order book left right now as on December in these three projects around significant 1,000-odd plus is what is left. So how much to be completed in this quarter? And is there any descoping that can happen if there is any land issue, previously we had talked about I think in Trichy there is some land issue?
- K. Venkatram Rao:** There will not be any intended descoping.
- Shravan Shah:** So broadly the entire order book which is left as on December mostly it should be over by March and June?
- K. Venkatram Rao:** Yes, mostly by June.
- Moderator:** Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.



- Prem Khurana:** Two questions. One was I mean, given the fact that three of our hybrid annuities are due for completion shortly, you said by June, you will be able to finish these and have COD in place, so, have we been able to engage with Cube to understand whether they would be willing to put in money now or would you want to wait for clarity to come through on the bank rate issue and then only go ahead with the transaction?
- K. Venkatram Rao:** Definitely, for infusion of money, as I already told in the last concall also, we are not envisaging any investment from them. So, now, the sale of these three projects with the Cube, the deal is on track actually, we are discussing and what are the bank rate issue is there, that is an industry issue, it is not specific to any project. We are also working out how do we mitigate that. And actually we will update you at the appropriate time.
- Prem Khurana:** There was a recent change wherein now you are allowed to exit by COD plus six months versus earlier requirement of staying with us for two years after COD. And if we will agree on the time, would you be willing to kind of exit in another six months after the COD comes through?
- K. Venkatram Rao:** Yes, because initially we thought COD plus two years, now NHAI has relaxed the guideline, so definitely, we are looking for that and it is very positive move from the NHAI, and in six months we will want to do.
- Prem Khurana:** And was there any descoping during the quarter in terms of order backlog because when I compare last quarter versus this quarter and adjust for the revenues that you've booked, there appears to be a gap of almost around Rs.200-odd crores with the last quarter order backlog was almost around Rs.8,500 crores, now, we are at around, I mean Rs.8,500 crores minus if I adjust for this Rs.700 crores kind of a number that you booked, it works out to be 7,800-odd crores, but order backlog is 7,650 or 7700 crores, so, there is a gap of almost 200-odd crores. So, what do you explain this gap?
- K. Venkatram Rao:** Because our accounting is based on percentage of completion based on expenditure and order book is based on certification. And so, as you know, this quarter actually, we received a lot of certification from our Mallana sagar project. So that is why there is some overbilling on this project. That is why order book looks compared to revenue.
- Prem Khurana:** If you could help us understand the status on your Palamuru, I mean, in terms of there was some land which was pending to come and how much has already been executed, and by when do we expect to complete this project? So Mallana has been going good, I mean, it's more than...
- S. Vaikuntanathan:** Almost 90% complete. Last one week, there have been two meetings conducted by chief secretary for irrigation. So, they're very particular and they intended the government officials to see that land is cleared within next 30-days. So, we have almost 980 meters left, that 980 meters we are expecting by another month.
- Prem Khurana:** And once we have this, how long will it take us to be able to finish the entire project?



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- S. Vaikuntanathan:** In fact, they are interesting to complete by June, July, but may not be possible, if they give land by say for example, March ending, we will take till next March.
- Moderator:** Thank you. The next question is from the line of B Vijay Kumar from Spark Capital. Please go ahead.
- B Vijay Kumar:** I would like to know the order book status of some of the irrigation projects, some of the big ticket, Navayuga irrigation project, Mega Engineering Kaleshwaram, Kaleshwaram project, the conveyor system
- K. Venkatram Rao:** Navayuga is Rs.775 crores and Mallana Sagar is Rs.195 crores, Kaleshwaram is same only, others Rs.1600 crores and Rs.695 crores same.
- B Vijay Kumar:** On the road projects like Kanchugaranahalli to Jigani and some of the other things four-laning?
- K. Venkatram Rao:** Jigani is Rs.133 crores and Kanchipuram is just Rs.2 crores only and Villupuram is just Rs.2.5 crores.
- B Vijay Kumar:** Flyover at Ramanathapuram and Sungam junction?
- K. Venkatram Rao:** Ramanathapuram and Sungam is Rs.88 crores. You can ask offline if any more details required.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from Centrum broking Please go ahead.
- Ashish Shah:** Could you give a break up of revenue for the quarter for EPC, HAM and Irrigation?
- K. Venkatram Rao:** HAM for the quarter is around 49%, for irrigation is around 29% and rest are 22%.
- Ashish Shah:** Just one question on the margin, I mean, we did say the general level of margins to remain where we are, but given where the increase has happened in terms of most commodities, and given that for the new irrigation packages, we might have to have a higher share of procurement of inputs. So, do you expect that the margins will be maintained or do you think there can be some adverse impact because in general the commodity prices have gone up?
- K. Venkatram Rao:** As far as HAM project is concerned, they are fixed EPC price, whatever the price increase in the material is going through it will have impact, but whereas the EPC project is there, some price escalation is already built in the contract, but it is not the 100% pass-through, around 50% to 60% is pass-through. So, there may be some impact of the material in the execution of the project. Even HAM also, whatever the inflation they have built up in CPI and WPI, previously it is on the lower side, but last one, one and a half months we are seeing that it is moving towards upward direction. So I think that increase is mainly compensated through this, but overall there may be some impact will be there.



- Ashish Shah:** Are we in a position to quantify that impact or...?
- S. Vaikuntanathan:** Difficult to quantify because the rates have been changing quite frequently because there is no fixed increase and all that, for example, steel is raising like anything, cement also, diesel also. In the EPC project, price escalation covered there and basis all that point to point we will get, but steel, cement and all that based on indices, there may be some kind of deficiency on that total recovery, but HAM there will be some impact which we are studying yet.
- Ashish Shah:** Our irrigation contract is fixed price, there is no escalation built into this?
- S. Vaikuntanathan:** There is a price escalation policy and it is based on the prices of the specified materials and all that. That should not be a problem there.
- Moderator:** Thank you. The next question is from the line of Jiten Rushi from Axis Capital. Please go ahead.
- Jiten Rushi:** One question on the two new irrigation projects that you talked about during the call. The larger one has just started, but the major work will start from Q1 and for a smaller one also it will start from Q1. Just wanted to understand are you looking to complete this project at a faster pace like what you've done in the past like 18 months, which can help us better margin?
- S. Vaikuntanathan:** No, the biggest project involves components and all that. So, it will not be completed before the schedule. We may have to completely extend the time given in the contract.
- Jiten Rushi:** That is 24 months right?
- S. Vaikuntanathan:** Yes.
- Jiten Rushi:** But the design work is done because last quarter also we were talking about the designing part is still left and so CAPEX is still not identified, but now as you said the work has started, so, I'm assuming the CAPEX must have been identified and the designing was...
- S. Vaikuntanathan:** No, for example, once we start doing something, if there is some kind of materials encountered at foundation level, we may have to change the design again. So, that kind of process is going on and once that is done again, we have to do some model analysis. So, that will be done in some independent hydraulic laboratory, based on that drawing again get some changes and facelift and all that. So, that process is going on, that is the reason why I said we will start concreting by end of March.
- Jiten Rushi:** So, it will take one more month to finalize and then the work will start?
- S. Vaikuntanathan:** Yes.
- Jiten Rushi:** The second project also, the schedule completion we are planning to complete on time?



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- S. Vaikuntanathan:** There is an issue of land there and that is the reason why we are proposing some alternative and all that. So, they are still contemplating on that alternative. So, from the date they handover the land, we can reckon 24-months, not from the date of signing the agreement.
- Jiten Rushi:** What is the probability?
- S. Vaikuntanathan:** See, another three to four months is what I feel personally.
- Jiten Rushi:** How much of the land is available as on date?
- S. Vaikuntanathan:** Land is not there.
- Jiten Rushi:** So, that will take some time. So we don't expect any much revenue coming from this?
- S. Vaikuntanathan:** Yes. Next year also one project, we may expect some Rs. 300-400 crores and another project we may have some Rs. 100 crores, I do not know. This is a very wild guess.
- Jiten Rushi:** The Mallana Sagar project will get over this and Navayuga will complete by next year end and Rs. 300 crores from the larger one and Rs. 100 crores from the smaller one we are expecting in FY'22 in terms of revenue?
- S. Vaikuntanathan:** That is what we are projecting now at this point of time. It may change later.
- Jiten Rushi:** On the bidding side as you said in your opening remarks 15 projects by NHAI amounting to Rs.20,000 crores and there is one more EPC project. So can you just highlight which state we have bid for and when will the bids open for these projects? There is one more EPC bidding. What is the value of that?
- S. Vaikuntanathan:** It is around Rs.1,000 crores actually.
- Jiten Rushi:** So total is Rs. 21,000 crores including the HAM? And when are the bids expected to be opened?
- S. Vaikuntanathan:** First is we are bidding in the South India. So basically in Tamil Nadu and Kerala is almost a week to 10 days they'll open all the tenders because of the election code and all that. So Karnataka it may take another 10 days. By March ending we will be knowing where we are and how we are fairing and all that right.
- Jiten Rushi:** So should be positive?
- S. Vaikuntanathan:** It should be positive only for us, we're expecting reasonable numbers.
- Jiten Rushi:** Margin guidance we maintain at 17-18%?



- S. Vaikuntanathan:** Yes.
- Jiten Rushi:** Interest cost as you said in the opening call that has come down and going forward the finance cost will be lower. Do you see this cost going beyond Rs.10 crores or we will be maintaining a quarterly run rate of Rs. 8-9 crores?
- K. Venkatram Rao:** As of now, it won't cost more than Rs. 10 crores, but definitely I told you based on utilization of working capital, but as of now, we know that we are not using much working capital, we expect the same range.
- Jiten Rushi:** Any interest-bearing mobilization advance as on date?
- K. Venkatram Rao:** Rs.57 crores outstanding was there from NHAI.
- Jiten Rushi:** And these are interest bearing?
- K. Venkatram Rao:** Yes.
- Moderator:** Thank you. The next question is from the line of Anupam Gupta from IIFL Capital. Please go ahead.
- Anupam Gupta:** Just two questions. Firstly, is there any talk of selling the fourth HAM asset also to Cube is that in pipeline or that takes some time?
- K. Venkatram Rao:** Discussion is going on, as you know, already township is there, whatever the township there were three projects going to be applicable for this only, they are also showing interest to take, there is no issue on that. As you know that how bank interest is going to be negotiated. So, we are working on that actually.
- Anupam Gupta:** You said on margins raw materials will have an impact, but let's say given the spike in metals and crude and other inputs, can fourth quarter and next couple of quarters be sharply down or will it be under control because why am I asking that is because you said three projects are nearing completion and in that time, typically either concrete or bitumin both are used. So will that have a larger impact in the next few quarters or will it be manageable?
- K. Venkatram Rao:** Manageable, almost completed no, only balance are there, so impact may not be so much.
- Moderator:** Thank you. The next question is from the line of Faizal Hawa from HG Hawa & Co. Please go ahead.
- Faizal Hawa:** I just wanted to understand that so far we have been able to manage the transition from smaller sub-Rs. 500 crores orders to Rs. 1,500 crores orders very easily. What will be the next part of growth four years from now? And has the management charted out a way to really grow beyond



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Rs. 3,000- 4,000 crores turnover? That is one question. And secondly, don't you feel that this is like an inflection point for the road construction industry where most competitors are still not much active. And you could really you grab this inflection point by taking a large chunk of orders and have a very good run rate for the next four to five years. Have we been a little more liberal with our bidding process this time because we do tend to lose orders because of our very strict margin requirements? So, do you feel that those have been relaxed for these 15 biddings this time?

S. Vaikuntanathan: Basically the last part of your question, there is still a lot of competition, even in the recent tenders which we bid last couple of days also 10-13 people are bidding for HAM projects, because of the liberalization of experience and all that, bank guarantees and all that, they liberalize now, so obviously many players are coming into picture, so competition is still persisting. So it doesn't mean that we can grab the orders and keep it in a kitty and all that. So that problem will be there and it will stay. And as far as the larger size of the project is concerned, slowly I think we may, because now as you said, from Rs.500 crores to Rs.1,000 crores we are already there and even Rs. 1,500 crores also we took, Rs.2,000 crores and odd we can take, but the problem is that orders are not there, that kind of sizes are not there, the ones the sizes are there, we are eligible also, we can bid. And as far as turnovers are concerned, these will be gradual, will not be sudden.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Since the government through budget is emphasizing more on infrastructure, what will be the future of infrastructure in general and in particular, what will be the impact on our company in terms of revenue and percentage, etc.,?

S. Vaikuntanathan: Budget has to specifically emphasize more on infra. The basic thing is unless otherwise any country, in any situation if you don't give more emphasis on infra, capital goods industry will not go up and the cement, steel industry will not go up, there will be a labor component and then engineers and other people will not be employed. So, all these things taken into account infra has to be given more weightage. So, that's why government also has given more weightage on infra. And in another four to five years, there won't be depth in orders, that much is true. So there is a positive outlook for infra industries for the next five years.

Shanti Patel: So, you mean to say in the next two, three years our turnover may double?

S. Vaikuntanathan: Yes, certainly it will go up because the orders which we are having, have to be completed let us say in next 2.5-3-years. So your turnover also has to go up. And moreover, as and when chances is coming up, the company also will not lose the sight in taking more orders.

Shanti Patel: That I agree sir, but then approximately it can get doubled according to you looking to that trend which is prevalent today?



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- S. Vaikuntanathan:** Year-on-year basis, you can put 15% to 20% increase. If you take that into account maybe in the next four years to five years period it should double.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, this quarter why Avinashi Road in Coimbatore projects going very slow, any specific reason?
- K. Venkatram Rao:** This project has just started because this project contains 11.5 kilometers of elevated structure, there will be definitely some designs and everything is required there, that's why this project is slowly moving. Once all designs will be in place, this project will move fast. And this project has to be completed in 39-months.
- Ravi Naredi:** Various claims of the companies are pending with various authorities. So anything you want to tell by Q4, you don't know also, but just likely how much we can receive in this quarter?
- K. Venkatram Rao:** This quarter we are not expecting.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.
- S. Vaikuntanathan:** Thank you, everyone for your participation in earnings call. We have uploaded the "Presentation" at our company's website. In case of any further queries, you may get in touch with the Strategic Growth Advisors, our investor relations advisor or feel free to get in touch with us.
- Moderator:** Thank you. On behalf of KNR Constructions that concludes this conference. Thank you for joining us and you may now disconnect your lines.