



KNR Constructions Limited.

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To, The Manager BSE Limited, P J Towers, Dalal Street, Fort, Mumbai - 400001 Scrip code: 532942	To, The Manager, National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai - 400051. Scrip Code: KNRCON
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Dear Sir/Madam,

Sub: Transcript of Earnings Call for Q2 FY-23 held on 15th November 2022

Ref: Reg. 30 of SEBI (LODR) Regulations, 2015

Pursuant to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we herewith submit to the Exchanges transcript of earnings call held on 15th November 2022.

This is for the information of the Exchange, please.

Thanking you,

Yours truly

For **KNR Constructions Limited**

Haritha Varanasi
Company Secretary

Encl as above



“KNR Constructions Limited Q2 FY23 Earnings Conference Call”

November 15, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 15th November 2022 will prevail





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**MANAGEMENT: MR. S. VAIKUNTANATHAN – VP (FINANCE), KNR
CONSTRUCTIONS LIMITED
MR. K. JALANDHAR REDDY - EXECUTIVE DIRECTOR,
KNR CONSTRUCTIONS LIMITED
MR. K. VENKAT RAM RAO - GENERAL MANAGER,
(FINANCE & ACCOUNTS), KNR CONSTRUCTIONS
LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q2 FY23 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 * 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 evening, and season's greetings, everyone. Thank you for joining us today on the call to discuss the financial results for Q2 and H1 financial year 23. Along with me, I have Mr. K. Jalandhar Reddy - Executive Director; and Mr. K. Venkat Ram Rao - General Manager Finance and Accounts; and Strategic Growth Advisors, our Investor Relation Advisors. We have uploaded results and the 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 key company updates and industry events, post which we will have a question-and-answer session.

In the month of October 2022, the company completed transfer of equity stakes in the following subsidiaries with Cube Highways and Infrastructure.

KNR Tirumala Infra Private Limited. The company has invested Rs. 160.22 crores in the form of equity and sub debt, for which the company has received consideration of Rs. 136.81 crores against transfer of 49% of equity stake and repayment of entire sub debt on 31st December, 2021 and now the company has received Rs. 68.13 crores against 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 Rs. 14.05 crores, subject to the receipt of certain approvals from NHAI. Which is 1.37x

KNR Shankarampet Projects Private Limited. The company has invested Rs. 126.81 crores in the form of equity and sub debt, for which the company has received a consideration of Rs. 108.51 crores against transfer of 49% equity stake and repayment of entire sub debt on 31st December 2021. And now the company has received Rs. 46.09 crores against transfer of the remaining 51% stake. In addition to the above, the company shall be eligible to receive an additional consideration up to an amount of Rs. 4.61 crores subject to the receipt of certain approval from NHAI and totally it accounts for 1.26x



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KNR Srirangam Infra Private Limited. The company has invested Rs. 78.36 crores in the form of equity and sub debt, for which the company has received a consideration of Rs. 131.15 crores against transfer of 100% equity stake and repayment of entire sub debt through current transaction. In addition to the above, the company shall be eligible to receive an additional consideration up to an amount of Rs. 15.40 crores subject to a receipt of certain approvals from NHAI. So, the total return worked out to 1.87x.

Now, I would like to delve more upon the current infrastructure and road construction sector in India. Starting with the key development on toll collections, the government is planning to rollout GPS-based toll collection system as a replacement of the already existing FASTag toll collections system for seamless toll payments and vehicle movement on the National Highways. The implementation of this system might take some time. Toll collections through the FASTag system continued to witness a strong momentum. There is an increased vehicular momentum on the highways led by ongoing festive season as well as an improvement in the commercial vehicle traffic owing to increased economic activity. The toll collections are expected to increase on account of the hike in toll rates, which are linked to WPI. Honorable Union Road Transport and Highways Minister, Mr. Nitin Gadkari has recently set a target to construct 60 kilometers of highway per day. The target of highway construction is 12,000 kilometers for the current financial year. The government has recently decided to foreclose four road projects, where the contracts have become unviable or the contract was terminated due to default of contractors. Many banks had their money frozen in these projects. These foreclosures would allow 100% debt repayment to bank in case of default by NHAI.

In these contracts, the contractors will get back 100% of the equity. We firmly believe that this move will open up the funding to the infrastructure banks. The Ministry has built national highways of 3,559 kilometers on year-to-year basis of 2022-2023 as compared to 3,824 kilometers year-on-year basis. Similarly, the awarding for the same period stood at 4,092 kilometers compared to 4,609 kilometers year-on-year basis.

Now coming to the key updates of the company. The percentage progress as of September 30th 2022 for HAM project is as follows; Magadi to Somwarpet 65.5%, Oddanchatram to Madathukulam is 81.9%, Ramanattukara to Valanchery is 9.4% and Valanchery to Kappirikkad is 11.5%. During the quarter, the execution has primarily been driven by HAM projects. Out of Rs. 732.86 crores revised equity requirements of all the 5 HAM projects, the company has already invested Rs. 172.61 crores as on September 30, 2022. The incremental equity requirement of Rs. 560.25 crores to be infused, that is Rs. 295 crores, Rs. 160 crores and Rs. 105 crores for the remaining part of financial year 2023, 2024 and 2025, respectively. You can refer to the slide number 27 of the investor presentation for detail on each HAM projects.

I will now take you through the key highlights of the company. KNR Tirumala Infra Private Limited, a subsidiary company, has received a bonus amount of Rs. 8.13 crores, inclusive of taxes for early completion of the project by 52 days and the same was passed on to the company,



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which was shown in the standalone statement of profit and loss account. The company has also received a letter of acceptance for the construction of four lane road from IDA Pashamailaram Industrial Park to ORR worth Rs. 34.26crores. The total collection for the Bihar project that is Muzaffarpur to Barauni in Q2 FY23 and H1 FY23 has been Rs. 9.87 crores and Rs. 21.90 crores.

Coming to order book position, as of September 30, 2022, the company has an outstanding order book position of Rs. 8,041.5 crores. EPC road projects and HAM projects constitute 74% of the total order book, while irrigation projects constitute the remaining 26%. Client-wise, 57% of the order book is from third-party clients and balance 43% is from captive HAM projects. The third-party order book or non-captive order book, which accounts for 57% of the total order book position, is skewed between the state government contracts worth 42%, whereas 11% is from central government and balance 4% order book is from other private players. The total order book position is Rs. 8,806.5 crores, including a new HAM project. With that, the irrigation projects constitute 24%, roads constitute 28% and HAM constitute 48%. Please refer page number 32 of the Investor Presentation for more details. The current order book position remains healthy and provides a clear visibility of execution over the period of the next 2.5 years to 3 years. A robust order pipeline and ready DPR, detailed project report under the Bharatmala project should accelerate the projects are adding activity going forward. The company is targeting a further order inflow of about Rs. 4000 to Rs. 5,000 crores for the next one year.

I will now request Mr. K. Venkat Ram Rao, our GM, to present the results for the quarter and half year ended September 30, 2022. Over to Venkat Ram.

K. Venkat Ram Rao:

Thank you, sir. Let me take you through the Q2 and H1 FY23 standalone financial performance first followed by the consolidated financial highlights. I will start with quarterly highlights first. The revenue for the quarter grew by 12% year-on-year to Rs. 847.4 crores. EBITDA for Q2 FY23 witnessed a growth of 13% to Rs. 188.8 crores as compared to Rs. 167.5 crores in Q2 FY22. EBITDA margin in Q2 FY23 stood largely stable at 22.3%. Net profit for the quarter was Rs. 107.6 crores as compared to Rs. 95.2 crores in Q2 FY22, a growth of 13%.

Now coming to H1 FY23 highlights. The revenue of H1 FY23 grew by 16% year-on-year to Rs. 1,738.0 crores. EBITDA for H1 FY23 witnessed a growth of 14% to Rs. 353.7 crores as compared to Rs. 310.8 crores in H1 FY22. EBITDA margin in H1 FY23 stood at 20.4%. Net profit for H1 FY23 was Rs. 208.4 crores as compared to Rs. 168.3 crores in H1 FY22.

Now coming to consolidated financial performance. I will start with quarterly highlights first. The company recorded a 14% year-on-year growth in the revenue from Rs. 842.0 crores in Q2 FY22 to Rs. 961.7 crores in Q2 FY23. EBITDA came in at Rs. 263 crores in Q2 FY23 as compared to Rs. 177.5 crores in the same period last year. EBITDA margin in current quarter stood at 27.4%. Profit after tax stood at Rs. 98.8 crores in Q2 FY23.



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Moving to H1 FY23 highlights. The revenue for H1 FY23 grew by 18% year-on-year to Rs. 1,942.1 crores. EBITDA for H1 FY23 witnessed a growth of 25% to Rs. 474.6 crores as compared to Rs. 380.2 crores in H1 FY22. EBITDA margin in H1 FY23 stood at 24.4%. Net profit for H1 FY23 was Rs. 189.4 crores as compared to Rs. 181.4 crores in H1 FY22.

Now coming on the standalone balance sheet, the company continued to maintain a strong balance sheet. The working capital days stood at 54 days compared to 60 days in June '22. Standalone debt as of September 30th, 2022, is around Rs. 200 crores as compared to Rs. 124.75 crores as of June 30, 2022. The consolidated debt as of September 30, 2022, is Rs. 1,864 crores as compared to Rs. 1,593 crores as of June 30, 2022. The debt to equity on consolidated basis as of September 30, 2022, stands at 0.74x as compared to 0.66x as of June 30, 2022.

With this, we can open the floor for questions and answers. Over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, congratulations on a decent quarter. Sir, my first question is on the irrigation receivables, so can you update us on the status of the same? What is the June quarter?

K. Venkat Ram Rao: Irrigation receivables as of today, because last concall, we told it is Rs. 850 crores, but now as of date actually, it is around Rs. 900 crores. So, now around every monthly actually, we are getting around Rs. 50 crores to Rs. 60 crores, especially in case of Vattem, we have just checked with the authority. They told us that every month we will get around Rs. 50 crores to Rs. 60 crores. So, we have got around Rs. 160 crores as of now from the Vattem for the last 3 months. So, as of now, our outstanding is Rs. 900 crores.

Parikshit Kandpal: And sir, what is the execution for the second quarter on irrigation, revenue from the irrigation segment?

K. Venkat Ram Rao: Revenue from irrigation, it is around 16% actually around Rs. 125 crores.

Parikshit Kandpal: Sir, is there any path to visibility of reduction because whatever you are executing is getting paid and whatever is the backlog seems to be maintained at Rs. 850 crores or Rs. 900 crores and it is not reducing, so by this year end, how do you see the debtors outstanding? And on the execution, how this Rs. 125 crores run rate, so how much do you intend to execute in the second half?

S. Vaikuntanathan: See, Vattem project, the payments are out of the budget. So, they have said that at present, they are restricting to Rs. 50 crores to Rs. 60 crores per month and as per the availability of funds, they may likely to increase. That is one and in the case of this Package 4 and other canal projects, we have not received any payments. And our payments are very, very little because it has to be released from the lenders. So, lenders have delayed the release of payments. So, we are also



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going very slow on executing those projects. So, the major outstanding is from Package-4 and we have not received substantial payment. Now, they have promised that in the next 2-3 months, they are making arrangement with their lenders and REC is also going to release some funds, they are telling. We will wait and see how they are doing, but that is why we have slowed down the execution there.

Parikshit Kandpal: And just the last question, sir, in the balance sheet, the other current liabilities have reduced from Rs. 594 crores to Rs. 204 crores why is there such a sharp reduction of almost Rs. 400 crores here?

K. Venkat Ram Rao: Because what is happening, it contains some mobilization advances actually. As of March, it is Rs. 130 crores. Now mobilization advances at reduced rates is Rs. 62 crores, so almost Rs. 70 crores has been reduced there. And other than this, what are the billings because actually, as you know that we are now working in our Kaleshwaram package, those bills are not getting certified. So, that is why what are the dues to customers is there, that is also reduced, so that is why due to these two reasons, the current liability has been reduced.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir, I need a couple of balance sheet numbers, retention money as on September, unbilled revenue and mobilization advance?

K. Venkat Ram Rao: The mobilization advance figure is Rs. 62.71 crores and retention, you are talking...

Shravan Shah: Retention money and unbilled revenue, so last June, we said around Rs. 178 crores retention money and unbilled was Rs. 450 odd crores.

K. Venkat Ram Rao: Yes. Now retention is Rs. 207 crores.

Shravan Shah: And unbilled revenue?

K. Venkat Ram Rao: Unbilled revenue is around Rs. 470 crores.

Shravan Shah: What is the consol cash balance?

K. Venkat Ram Rao: Cash and cash balance is around Rs. 62 crores and other bank balance is around Rs. 194 crores. So, put together around Rs. 250 crores.

Shravan Shah: So, now just continuing the previous question, when we say that current liabilities has reduced and you said the mobilization advance reduced, so as on March, it was Rs. 145 crores and now Rs. 62 crores, so Rs. 80 odd crores is from that, but the reduction is on the Rs. 400 crores odd, so still not able to understand why the significant reduction?



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K. Venkat Ram Rao: That is also, because as you know that irrigation project, we are working, but their bills are not getting certified, but as you know, our accounting is based on expenditures. Accounting based on expenditure; we are accounting the revenue. So, due to this, our dues to customer has come down actually. So, as of March, it was Rs. 348 crores. Now it has reduced to Rs. 95 crores.

Shravan Shah: Sir, on the guidance front now, so what is the new guidance? Last time we said Rs. 3,500 crores revenue, 15%-17% EBITDA margin, though the EBITDA margin is definitely on the higher side, so what is the new target for this year and maybe for the 24, we were looking at 10%-15% growth, so what is the number now one can look at?

K Jalandhar Reddy: Actually, it is quite difficult to predict what is happening because even 15th November, 14th November, we are receiving rains, which has become more dilemma thing for us, but however, we are trying our best to push to the commitment, which we have given, but there have been certain backlog as of now. We will have to see how best we can cope up in the future because the rainy season started in, I think it has started in the month of April actually. It was a little bit early. Generally, April and May, we used to get as our working season, but this time partial 50% of the April month has been under rain and again, May was complete under rains. So, this is somehow creating huge problems because whatever the structural works and we were able to do, we have done it, but once it comes to the road works part, due to excess moisture conditions and all that and approachability into the by-passes and all, it was a bit tough for us. So, that is way I think October and November was bit problematic this time because the rainy season was continuing in the October also as well in the November also, that is completely out of our planning really. So, definitely, we will try our best, but I expect plus or minus 5% in this case, but we have to struggle a lot to get into that zone.

Shravan Shah: So, let us say, if this year if you are able to do only just 5% growth, then the next year we should be then having 20% plus growth to cope up delayed execution in this year?

K Jalandhar Reddy: Obviously, the piled-up things has to be completed in 2.5 years' time whatever the project timelines are given. We will definitely try to shift towards the completion time or we will stick to the completion time. Maybe, bonus may not be possible because right now we have lost lot of working season in each project, so maybe we will try our best to push on date.

Moderator: Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Congratulations on a good set of numbers. Sir, my first question is, how much is the executive order book out of Rs. 80 billion? Is the Rs. 21 billion from irrigation can be classified as non-moving at this point of time?

K Jalandhar Reddy: Actually, what happened, irrigation part concerned, almost Rs. 2,000 crores worth of contracts, which are under execution, they used to regularly run in 3 shifts and all, now it is going in one



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shift and that too, we were a little bit in the dilemma, we are running that. I think there is some positive signals that are coming up from the pump house projects. It is being considered under that loan parts. So, the bank loans are getting realized in coming 10 days. Within 10 days, if we get realized, then we will try to move on with this project, as we have scheduled..

Mohit Kumar: Secondly, sir, note number 5, where you are mentioning that two of company JV has sold their pending arbitration claims, this Rs. 24 crores has been recognized as part of the revenue in this quarter, right?

K. Venkat Ram Rao: Yes. Correct.

Mohit Kumar: So, net impact is Rs. 16 crores on the profit in this quarter on this account, is that correct?

K. Venkat Ram Rao: Yes. Correct. What you said is correct.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, just one small clarification regarding the last question that Mohit also asked, so in the point 5 that it is given in the notes, Rs. 24 crores is the number that has been booked in the revenue at a standalone level for the second quarter?

K. Venkat Ram Rao: Yes. Correct. Rs. 25 crores has been added in the revenue from operation in the second quarter only, yes.

Vibhor Singhal: And sir, for the first half, it is written Rs. 52 lakhs only.

K. Venkat Ram Rao: No, it is not like that. It is for the 2 JVs, because we have 2 JVs: Patel KNR JV and KNR Patel JVs. So, only for those JVs, you have to consider.

Vibhor Singhal: So, Rs. 25 crores is from this number and there is also a bonus of Rs. 7.25 crores. That is point number 4.

K. Venkat Ram Rao: Yes. Correct.

Vibhor Singhal: So, totally, sir, Rs. 32 crores of revenue is an exceptional item in this quarter in the revenue, right?

K. Venkat Ram Rao: Yes, you can consider that.

Vibhor Singhal: And sir, this Rs. 32 crores will not have any cost? This will flow straight to the EBITDA, so this is Rs. 30 crores of additional EBITDA also?



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K. Venkat Ram Rao: EBITDA is directly Rs. 32 crores will come, but it will have the tax impact. Tax impact is there. That is all.

Vibhor Singh: So, the revenue and EBITDA, both are higher by Rs. 32 crores because of these 2 line items.

K. Venkat Ram Rao: Yes. Correct.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H G Hawa and Company. Please go ahead.

Faisal Hawa: Sir, why is our tax higher this time and what is this deferred tax? And also, our employee costs have also risen quite a bit, so what is the reason behind it? And sir, how do we see the order book panning out because we have won hardly any orders this whole year and we may be low on orders after the next FY?

K. Venkat Ram Rao: Sir, as far as the tax is concerned, so tax is almost on the same base because if you see other net tax that we have without deferred tax, we are in the range of between around 26% to 27%. So, tax is on that range only. As far as employee cost is concerned because this last year, some of the variable pay actually, we were supposed to pay to the directors, we have paid in this quarter actually. So, that is why employee cost has been increased.

Faisal Hawa: Directors' bonus was pending?

K. Venkat Ram Rao: Variable pay actually, which is part of their salary package actually. So, that way after our Board Meeting, it has been paid to the promoters and as far as the order book is concerned, right now, we have Rs. 8,800 cores of order book and definitely last 1-1.5 years, we have not got the order, but we have bid.

K Jalandhar Reddy: Actually, as the bidding part is concerned, the market is very aggressive this time. Fortunately, I would like to quote one of my projects where I have quoted 17%, wherein I was expecting only the equipment hired as my return. There the project is opened at 30% minus. So, you can understand the aggression in the market is very wrong. At this point of time, I am really scared to take an order from the market right now, but anyhow, sir, we are trying our best in different areas like Kerala again, I am striking because lot of bids are coming from Kerala as well. We were even thinking certain bids to be placed in North Eastern part of India. Even we are open to do North part of India also, even Maharashtra, there are certain projects, the Bangalore-Hyderabad highway has also started for tendering and certain part of projects which are Vijayawada-Hyderabad highway is also coming up and Vijayawada-Amaravati to the Bangalore highway is again connecting. So, there have been lots of Greenfield highways, which are coming up right now and I think they are on the tendering, but because of the Green Tribunal clearance is not there for these projects, I think the tendering process is getting delayed. I think you might have seen lot of tenders, which are there in the November month, but subsequently every day,



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they are getting postponed. So, I think they may happen in the month of Jan, Feb, I think. I am even doubtful in December because that Nagari project, you must be knowing that Nagari to the TN border, which Chittoor-Thatchur Package-3 that is there with us, because the land acquisition is done now. I think around 70% land acquisition is there, but because of the Green Tribunal clearance is not there, so they stopped to issue the appointed date. Otherwise, this would have been added into the execution, would have given me a little more comfort in achieving my targets.

Faisal Hawa: Sir, do you feel that the interest cost will go down from the next quarter onwards because now the Cube money has come and we have almost reduced all our loans? And on a consol basis, we may be now even debt-free in the next quarter, so the interest cost will go down in next quarter?

K. Venkat Ram Rao: Yes, we expect that by this quarter, it will go down, but we are definitely waiting for the receivables from the Telangana this thing. If receivables are coming, then definitely we have more control on that, but as far as this quarter is concerned, it is definitely going to be reduced.

S. Vaikuntanathan: We have 3 projects. Rs. 1,200 crores loan will almost go out of our books.

Faisal Hawa: So, consolidated, we may be debt-free on 31st March 2023?

K. Venkat Ram Rao: Yes, almost and we will have debt of our Muzaffarpur, Barauni projects.

Faisal Hawa: And is there any progress on selling that Muzaffarpur-Barauni project also?

K Jalandhar Reddy: Actually, selling may not be possible, sir. I don't want to keep anyone in any dilemma because you know, soon after the things are that the documentation is coming, it is only our bad luck that separate, which is connecting the Patna and this section has been under repair for a long time, I think, almost 2.5 years the revenues are down because of that. I think earlier it was clocking almost Rs. 30 lakhs per day it was touching, which has now come down to Rs. 9 lakhs to Rs. 10 lakhs, which is above our expectations and we are now in control also. Another 1-1.5 year, they are saying that we have to wait for the heavy I think it is opened for the small moving vehicles, but it is not for the goods vehicles. It is expected from the commercial vehicles only. So this is the major-major problem.

Faisal Hawa: Towards NHAI, what is the total amount of claims pending and with arbitration as on date?

K. Venkat Ram Rao: Rs. 500 crores almost.

Faisal Hawa: Plus, interest?

S. Vaikuntanathan: Including interest.

Moderator: Thank you. The next question is from the line of Veenit Pasad from Investec. Please go ahead.



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Veenit Pasad: Sir, sorry to harp back again on the current liabilities bit, just wanted to understand a bit better whether the dues to customer's line items, which we report, is it akin to the trade payables or how does the accounting really work there?

K. Venkat Ram Rao: Due to customer is accounting like that actually, because you know, our accounting systems is based on expenditure. So, what is the expenditure we are doing, plus what are our expected margins for the project, that we will recognize in the revenue actually. Suppose some certification is not happening, in case, sir, whatever the difference is there, it will reflect into due to customer and due from customer. So, based on that because last March actually, it was actually more due to customers were there, but now a lot of work we did actually in the irrigation project basically. Even Q1, we did good work, around 35%. Definitely Q2 we did only 16%, but there is not much certification of the bill. So, that is why our due to customer has been reduced actually and it has gone to due from customer. So, this is our accounting policy and if required, we will have a separate discussion on this actually.

Veenit Pasad: Sure, sir, I will touch base with you separately on this.

K. Venkat Ram Rao: Yes.

Veenit Pasad: Sir, I was asking about the bidding and the competitive intensity, you answered to one of the participants stating that bids continue to be aggressive, is that the case even for HAM projects, or it is predominantly EPC?

K. Venkat Ram Rao: HAM and EPC projects are on the same and HAM projects, I think we are expecting some modification of the bidding criteria to come, but the competition is for both.

Moderator: Thank you. The next question is from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: Sir, just a followup question on the aggression in the bidding, so, sir, what order inflows you are targeting now for this year considering the bidding environment, which you yourself mentioned is very aggressive and even from the road side, we have not seen any major orders being awarded, so what is the outlook on the order inflows?

K Jalandhar Reddy: Sir, actually, looking at our internal programs, our growth strategies, we would be targeting to get around Rs. 3,000 crores to Rs. 4,000 crores order inflow in coming year, full year. This is our target, sir and more or less, we are placing bids. Definitely, as I earlier told you that market is very aggressive and they are taking at a wrong price. For me it is wrong, but I don't know if they might be feeling that it is workable for them. We will have to see, sir, because time will tell. Nobody will be able to gauge it as of now. And as of now even in structure, that new coating in place, where the cost of each structure is going up by 30% and sometimes 20%, sometimes 30% than the normal quoted provisions. So, with all these difficulties, definitely, the cost of the



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projects should go up. There is no doubt, but going down to 30%, 25%, 20% levels, it is not a healthy sign that is happening in the industry. Really, if any company picks up a project there, sometimes it is viable, but most of the times it is not. Earlier cases, we have taken some projects at 25% and we have completed successfully with profit, but it is not the case for every project to be like that. So, proper estimates and proper ideology, proper designing should go in to each bid, then only things will be clear for us and the bidding pattern, how people are taking up because maybe I think because of that eligibility norms, which have been the Government of India has liberalized, I can say the word liberalized is right, because any irrigation projects people they can bid, any person who is coming from building project sites, they can come and bid on to roads, but whereas if I want to go and bid in an irrigation project, they will ask me a similar work you have, then only you are eligible. So, the industry is heading in a wrong kind of stage. So, that is how many number of players are coming to this place and they really don't know what is the role and they are placing the bids, which is creating huge havoc in this market, sir. This is my opinion. I don't have any sort of, I think I am not trying to say someone is doing wrong or something, but to me, it is my opinion.

Alok Deora:

And, sir, so people have been talking about the aggression coming down and especially in the road projects, so in your opinion, you have not really seen any sort of aggression slowdown?

K Jalandhar Reddy:

Actually, I think I was the one which I have told you in the last meeting, last same concall, I told you that aggression is coming down because I have seen very few bids, which have come down when I was attending before I think in the meeting. I think 1 week ago, I have seen 2-3 projects, which have gone at a very reasonable price and they were even near equal to my workings also, but then I was thinking market was going up, but recently whatever the bids are opened and I am not even L1 and I am somewhere in large. So, where I am now thinking and I recalculated. See, once I fail in a bid, definitely what I do, I come and do home work where I have done something mistake. Really, am I going somewhere wrong? Am I not catching up the market because of the new conceptual designs? Or am I not trying to take the latest concepts of construction methodologies, by which I am not cutting costs and everybody is cutting the costs. So, we have really engaged the consultants and top-notch consultants and we are seeing everything we made a trial. Then after that, my conclusion, I am not saying the market conclusion or someone's conclusion. According to me, market is at now, strong aggression is going in the market now.

Alok Deora:

Just last question, sir, so, sir irrigation projects, you mentioned about Rs. 50 crores-Rs. 60 crores you are receiving every month, so how we will see the execution now here? Are we looking to execute nearly a similar run rate in the coming months? Just some outlook on how the execution in the irrigation will proceed from here.

K Jalandhar Reddy:

What is happening, if the pump house projects, as I earlier told you that around, the pump house projects outstanding is about, say, Rs. 350 crores is there, now I think Rs. 300 crores is under consideration. If we get this payment within 10 days, definitely, things are going to be



streamlined and I am bit confident of achieving the targets also, but here the thing is, my gut feeling is everything should go well actually because I think that 4-5 days back, they have been informing us that, yes, you can go ahead with the project because the project is getting admissible into the bank loans, so one of the good news, which we are thinking, but unless we realize the payment, we cannot believe these guys. If the department, they say everything, but nothing was coming through all these days. So, definitely, we were going in the same phase of, out of 3 shifts, we are working on 1 shift and trying to keep and whatever the payments they are giving us, the same thing we are putting back also. It is not that we are utilizing for some equity investors or somewhere, nowhere we are investing. We are again investing back to the same old projects. So, that also we have highlighted to the department. You give money, same thing we will put back. Vettam project, I think Rs. 60 crores every month we are getting. I think it will get closed maybe in another month, 3 months' time at least.

Moderator: Thank you. The next question is from the line of Parvez Qazi from Edelweiss Securities. Please go ahead.

Parvez Qazi: So, first is, for the Chittoor-Thatchur project, by when do we expect to get the appointed date?

K Jalandhar Reddy: Chittoor-Thatchur, sir, actually the land acquisition is concerned the achievement is about 72% that we have achieved as of now, but we were ready to take it also because we have continuity for 50% of the road highways. I think there has been certain, actually land payments were given, but there is some crop cutting payments that are not given. So, those things also we are considering for 80% thing, where crop payments and that can be, if they have not given, at least we can proactively pay them and get that things done. So, with that gut feeling, we have approached the department that, okay, we will take the appointment date, but department, now they say that they don't have the NGT clearance. So, now, I think NGT clearance is awaited in, say, by month end. We will have to see, sir. Another thing is now the rainy season has started, Chennai and everywhere, it is completely rainy. As complete Greenfield highway is where complete efforts are in place. So, initially, I need a dry time also. So, even if December passes away, it doesn't matter, but if they give us very early weeks of January also, we will be completely doing it for 3 months to catch up into this last quarter.

Moderator: Thank you. The next question is from the line of Nikhil Abhyankar from DAM Capital. Please go ahead.

Nikhil Abhyankar: Sir, in continuation with to the question regarding the irrigation segment are the payments are going to come only if the lenders approve loans to the government SPV or the government is also willing to put in money?

K Jalandhar Reddy: Yes, sir. I think lenders are accepting what is informed to us by the department because, definitely, we don't have an access to these bankers also. So, we will have to rely upon these



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guys. I think within 10 days, if we are getting paid, then definitely, we will inform you that we are getting paid, then this will become okay.

Nikhil Abhyankar: And sir, any specific reason why it is delayed, the approval?

S. Vaikuntanathan: Actually what happened, earlier the dilemma was that whatever the pump house we are doing, this is coming under additional provisions, additional capacity, but the irrigation department says that, no, this is not an additional capacity, this is well within the schematic project earlier planned. So, that is where the department needs to give some technical explanation to bankers and everybody and convince them to get the loan. Earlier, it is approved. Only the Central Government intervention, they have stopped it. If they convince them, then things are getting okay. So, once they inform that it is being considered by the banks, so we can hope something on it, but until we receive, we will not believe anything out of it. There is no doubt in this, sir.

Nikhil Abhyankar: Sir, can you just mention the order pipeline for H2 FY23 and the quantum of bids, which we have already bid for?

K Jalandhar Reddy: Actually, we have bided almost Rs. 3,000 crores is now bided in the Kerala state itself, which is yet to open. They have not opened the tender. I think another one is in Telangana; they have opened all the tenders. only one is there Banagalore I think Rs. 4,000 crores is yet to open kind of thing.

Moderator: Thank you. The next question is from the line of Ash Shah from Elara Capital. Please go ahead.

Ash Shah: So, could you just provide some update on the IT department raids in the last, department will submit some appraisal report and then probably they might come, they might clear out the matter, so if you could just provide some update?

S.Vaikuntanathan we are yet to receive any notice from the department. We understand that whatever the initial investigation was done, they have submitted the report to the respective assessment division and the assessment division, they are studying and the notice has not yet come. Unless otherwise the notice comes, there is no obligation on our part. Then we will act accordingly.

Ash Shah: And there was one more thing, if I see your opening order book for this quarter under closing order book, the execution amount comes out to Rs. 544 crores, whereas the revenue that we have booked is around Rs. 820 crores without the additional one-off, so could you just provide the difference? I mean why such a huge difference.

K. Venkat Ram Rao: As I told you, because our turnover is based on our expenditure actually. It is not based on the difference of order book. So, what has happened in this quarter actually, we did actually work for other projects, where bill has not certified especially in the irrigation, we did around 16% of



work, but there is no certification in the irrigation. So, that is why the difference is due to that reason.

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

Prem Khurana: So, again on irrigation only, so I understand, I mean Kaleshwaram 4 is kind of funded project and there is a lender in place, but I think Kaleshwaram 3, the payments were supposed to be released by the government from the budget, so any commitments from the government authority on Kaleshwaram 3 because it is not that they need to rely on lenders to be able to fund the project. Essentially, we are supposed to rely on the budget only and we used to have some issue in terms of work front with this package, right, earlier, so has that been resolved?

K. Venkat Ram Rao: Definitely, Package 3 is through budgetary support, but as already we told you, we are following the department and department has promised every month at least Rs. 50 crores, they will release. Right now, actually they are considering the Vettam actually and they are releasing that payment and once Vettam liability will clear, definitely we will push for this Package 3 also with them actually. So, definitely because we have to also see how the department is working through. Definitely, we are expecting that after this Vettam will close, we will start working on Package 3 also and try to receive the money like that. That is one.

Prem Khurana: The land, if it is?

K. Venkat Ram Rao: The land is Package 3 actually because Package 3 is most of the canal work. So, out of almost around 50% land is there. So, on that we are doing the work actually.

Prem Khurana: And sir, possible to share, I mean the order backlog that you gave in your presentation, is it possible to kind of break it down project-wise in the irrigation projects?

K. Venkat Ram Rao: Yes. You can ask offline. We can provide it.

Prem Khurana: Sure, sir. I will take it offline.

Moderator: Thank you. The next question is from the line of Uttam Kumar Srimal from Axis Securities. Please go ahead.

Uttam Kumar Srimal: Sir, what is our CAPEX guidance for FY23 and FY24?

K. Venkat Ram Rao: Actually, as far as CAPEX is concerned, this year we did around Rs. 75 crores of the CAPEX up to 6 months. So, in this quarter, we did around Rs. 15 crores of CAPEX and we expect that there may not be much requirement for the CAPEX. If any project is also coming, it will take at least next year to start. So, this year guidelines will be somewhere around Rs. 100 crores to Rs. 120 crores is the maximum CAPEX that we are going to.



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- Uttam Kumar Simal:** And sir, for next year?
- K. Venkat Ram Rao:** So, next year, definitely, based on this, how the project is coming, we have to just work because we know that already 6 months is over. If any project is coming also, definitely that is not going to take up in this year. So, it will take up from next year only. So, next year capacity based on when we will receive a project, we will work out and we will inform accordingly.
- Uttam Kumar Simal:** And sir, what is our current tax rate?
- K. Venkat Ram Rao:** Current tax rate, we are in 25% tax regime. We have opted the new tax regime.
- Moderator:** The next question is from the line of Devansh Goenka from Fusion Clothing. Please go ahead.
- Devansh Goenka:** I just wanted to understand the Bharatmala project of the government, do you foresee more project wins coming through Bharatmala?
- K. Jalandhar Reddy:** Yes, the government is planning to add more projects under Bharatmala because they have done the project report also and then the Minister also has given a statement that they are planning some 12,000 kilometers. The only thing is that we have to wait for them. They have to arrange for the clearance of all this, ROWs and other things and also the funds by NHAI. And we hope that it should come forward before the next November, because the November is the cutoff line. Before the election, they have to release all the orders. So, it should come definitely.
- Devansh Goenka:** And just one more question, I just wanted to understand your operating margin outlook for the next quarter, the next financial year, if you can give some guidance on margins?
- K. Venkat Ram Rao:** Margins will be, this half year, we did achieve around, if you take out this extraordinary item, we are at somewhere around 18.5% to 19%. So, we expect that we should be able to maintain that between 18% to 19% margin for this year and next year also, we will try to maintain the same.
- Moderator:** Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, just wanted to understand a bit more in terms of the individual specific projects, so two Kerala HAM projects, the big one, close to Rs. 2,992 crores, so Rs. 3,000 crores order book is pending, in the first half, we have done close to Rs. 261 crores execution, so how do we see execution in the second half? And previously, we are looking at around 40% execution in this year and the next year, how do we see the execution from this, particularly 2 HAM projects?
- K. Venkat Ram Rao:** Definitely, initially we told that around 40% we will do, but you know that this year due to these incessant rains, we could not able to achieve that and as of now also, Kerala, till October end actually, it was raining only, but definitely, we have now rest almost 4.5 months. So, we will try.



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If there is no rain, definitely we will try to achieve that and we are expecting in the second half, we will do definitely most of the turnover from these 2 Kerala projects. So, we are targeting towards that only and definitely next year, we will huge actually, next year we will be almost.....

K Jalandhar Reddy:

Backlog whatever is there.

Shravan Shah:

So, mostly by next year, we will be completing these, both the HAM projects?

K. Venkat Ram Rao:

Yes, July 2024, we have time. So, March 24, definitely we will try to do that because we have to see, yes, we cannot say as of now because of rains.

K Jalandhar Reddy:

Because rains provided there does not be any unseasonal rains also like this year.

Shravan Shah:

Second is on Avinashi Elevated Highway, there also we have Rs. 758 crores order book. In the first half, we have done only Rs. 50 odd crores, so how do we see and watch the completion deadline for this?

K Jalandhar Reddy:

Yes, actually, execution time is another 2 years is there. I think we will complete within that.

Shravan Shah:

So, this first half we have done only Rs. 50 odd crores. In the second half, how much we are expecting to do?

K Jalandhar Reddy:

Sir, actually every month, it is clocking around Rs. 35 crores to Rs. 45 crores, sir, little in between. Recently, we have added one more launching system. Due to that another Rs. 10 crores to Rs. 15 crores is likely to go up, but, however, this will be from December only, not from February. Plant and machinery we have added in November. I think those will come into operation will be in December. Because it is not regular schedule timing, we are achieving every milestone which is fixed by the department. In fact, actually there have been certain hurdles in the department side also. There have been some obligatory foundation places, they are not able to provide us because there is a thick traffic that is moving around. So, they are making some alternate arrangements. They say they will need time and they never gave us their position and those foundations are still pending and they are coming on the way. So, you know that launching system, once it is hurdled, at least it will take 25 days to 30 days to shift the launching facility to the other location. So, that is where we are losing the time, which we were highlighting them also. It is completely departmental faults in there.

Moderator:

Thank you. The next question is from the line of Bharani Vijay Kumar from Spark Capital. Please go ahead.

Bharani Vijay Kumar:

So, this reduction in these liabilities to the tune of Rs. 300 crores-Rs. 400 crores due to the delays in certifying bills, so when would it be reflected in the P&L? That is when would the revenue corresponding would be recognized?



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K. Venkat Ram Rao: The revenue is recognized already. It was again the balance sheet entry. Once this certification will come, so accordingly, this is due to customer and it will at the same time due to us. Revenue is already booked. Based on expenditure, revenue is booked and now if certification is happening, based on that, our due to customer or due from customer will be accordingly adjusted.

Bharani Vijay Kumar: So, now what will be the adjustment that will happen, it will be due from customers?

K. Venkat Ram Rao: It will be in irrigation around Rs. 450 crores will be there, so that certification is pending to the extent of Rs. 450 crores. So, Rs. 450 crores will be reduced in our order book actually.

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

S. Vaikuntanathan: Thank you all for joining us on this call. Please reach out to our IR Consultant, Strategic Growth Advisors or us directly, should you have any further queries. We can now close the call. 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.