



“KNR Constructions Limited
Q4 FY2021 Earnings Conference Call”

May 21, 2021

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Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q4 FY2021 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 am now glad to hand the conference over to Mr. S. Vaikuntanathan, VP Finance, KNR Constructions Limited. Thank you and over to Sir!

S. Vaikuntanathan: Good afternoon everyone and a very warm welcome to all you present on the call to discuss our financial results for the quarter and year ended March 31, 2021. Along with me, I have, Mr. K. Jalandhar Reddy, Executive Director, Mr. Venkatram Rao, General Manager (Finance & Accounts) and Strategic Growth Advisors - our Investor Relations Advisors.

In the wake of the second wave of COVID-19, I hope all of you and your loved ones are healthy and safe. I hope everyone is following all the regulations and safety protocols laid out by various authorities.

I would like to highlight a few industry updates first and then we will discuss the company’s performance. As we all know, the road construction sector faced multiple headwinds mostly in terms of availability of manpower due to COVID-19 induced disruptions during the first half of this fiscal year. The road sector is finally witnessing a significant recovery with workforce strength nearing to the pre-COVID levels. Despite the initial period, being impacted by COVID-19 led lockdowns, FY2021 saw a record 37 kilometre per day of highway construction. While highway construction was lower in April to October 2020, it grew from November 2020. Overall, 13,327 kilometres of highways were constructed in the financial year 2021 as compared to 10,237 kilometres in FY2020.

Minister for Road Transport and Highways hopes that the construction would touch 40 kilometres per day in 2021-22. The Central Government is giving utmost priority to the development of infrastructure and has set a target of road construction worth Rs. 15 lakh Crores in the next two years. As per the Union Road Transport and Highway’s Minister, under the National Infrastructure Pipeline, there are 7,300 projects to be implemented at a total outlay of Rs. 111 lakh Crores by 2025 and that the project aims at improving project preparation and attracts investment into infrastructures like highways, railways, port, airports, mobility, energy and agriculture and rural industry.

The highway is awarding as activity by MoRTH and NHAI was also higher in FY2021 with about 10,965 kilometres of highways awarded as compared to 8,948 kilometres in FY2020. The



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NHAI awarded 141 projects in 2020-21 aggregating to 4,788 kilometres. The length awarded in 2020-21 was the highest in the last three years compared to 3,211 kilometres in 2019-20 and 2,222 kilometres in 2018-19.

Of the total projects awarded in 2020-21, 2 projects were on the BOT model for a length of 132 kilometres, 69 projects for a length of 2,609 kilometres were around the HAM model and the balance of 70 projects of 2,047 kilometres was on the EPC model. The share of Engineering, Procurement and Construction that is EPC in the awards last fiscal was 46% followed by the hybrid annuity model at 54%. The capital cost for the project for 2020-2021 more than doubled to Rs. 1,71,226 Crores as compared to Rs. 81,324 Crores in 2019-20 and more than 2.6 times as compared to 64,009 Crores in 2018-19.

For the current fiscal NHAI is planning and awarding activity of Rs.2.25 lakh Crores which is a growth of more than 32% compared to FY2021. The Income Tax Department has granted tax exemption to four pension funds for the earning, for the infrastructure investment as part of efforts to bolster the sentiment for investment in infrastructure. The tax break is applicable for investments made till March 2024. The idea is to help finance some of the nearly 7,000 projects that are part of the National Infrastructure Pipeline.

Road traffic has witnessed a marked improvement in the H2FY2021 after subdued traffic witnessed in the initial months post resumption of tolling from April 2020. This has been driven by the increased movement of passenger and commercial vehicles. The total collection is likely to witness robust double-digit growth in FY2022 on a low base, following an escalated degrowth of 5% to 7% in the financial year 2021.

FASTag based toll collections on National Highways rose more than 20% in March to Rs. 3,100 Crores compared to Rs.2,560 Crores in February, helping India's Highways Development agency to improve its financials and increase the phase of asset monetization. However, toll collection through FASTag on National Highways in India fell to Rs. 2,780 Crores in April as a result of cuts for mobility to contain the spread of Coronavirus. Toll collections are expected to witness a rise from July as COVID-19 impact settles in the country and mobility improves.

The government has made use of FASTag mandatory across at least 75% of the lane of toll plazas and the limited use of cash payment to a maximum of 25% lanes of the toll plaza. This has helped to reduce revenue leakages substantially and daily toll income has increased from Rs. 70 Crores per day to more than Rs. 104 Crores per day. Currently, revenue from FASTag constitutes about 95% of total toll collections. Adjustment in toll collection is expected to attract more bidders for NHAI and BOT toll tenders which will further ease the funding pressure on NHAI.

Now coming to the key updates of the company. The project execution gathered pace post easing of lockdown in Q2 FY2021. Our average operational effectiveness in this quarter stood at 95%. Our workforce have reached the pre-COVID level and we are not witnessing any shortfall in the



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workforce during FY2021. However, due to the impact of the 2nd wave of COVID19, in Q1 FY2021-22 the workforce efficiency has come down to 60%-65%. The percentage of physical progress as of March 31 2021, for our four HAM project, is as follows:

Chittor to Mallavaram is at 82%, Ramsanpalle to Mangalore is at 80%, Trichy to Kallagam is at 60%, Magadi to Somwarpath is at 29% and Oddanchatram to Madathukulam is at 27%. During the quarter, the execution was primarily driven by HAM projects.

The company has entered into a share purchase agreement with Cube Highways and Infrastructure III Private Limited for three projects. Our deal to divest these three HAM projects is on track. Out of the 670 crores equity requirement for all the five HAM projects we have already invested Rs. 365 Crores as of March 31, 2021. Our incremental equity requirements stand at Rs. 200 Crores and Rs. 60 Crores for FY2022 and 2023 respectively. You can refer to slide number 26 of our investor presentation for details on each HAM projects.

The tentative equity requirement for the two new HAM projects is Rs.430 Crores, which needs to be invested by the company over a period of two and a half years from the appointed date. The toll collection of our Bihar projects that is Muzaffarpur Barauni, the collection in Q4 FY2021 has been Rs. 9 Crores. We have invoked the force major clause as per concession agreement and are under discussion with NHAI for eligible compensation.

Now coming to our order book position. During the quarter the company has received two NHAI HAM project in the state of Kerala for a value of Rs.4,507 Crores BPC and one EPC project worth Rs. 983 Crores excluding GST in the state of Karnataka. As of March 31, 2021, we have an orderbook position of Rs.7,118 Crores. EPC road projects and HAM projects constitute 56% of our total order book while irrigation projects come to the remaining 42%.

Client wise, 74% of our order book is from third party clients and the balance 26% is from HAM projects. Our third party order book is a non-captive order book which accounts for 74% of the total order book position is skewed between state government contracts with 62% whereas 3% is from Central Government and the balance 9% order book is from other private players. Our current order book position is robust and provides visibility of execution over the next three years. The robust project pipeline and the ready DPR under the Bharatmala Project should accelerate that project awarding activity going forward.

The process of submitting four to five bids for the road project is currently underway. The average ticket size of the tender for each project is about Rs. 1,000 Crores Based on our shortlisted project, the bidding pipeline for FY2022 we are targeting a further order inflow of Rs. 3,000 Crores to 4,000 Crores for the financial year 2022. The estimated EPC cost for the new HAM project will be around Rs.3,340 Crores and the cost of the new EPC project is Rs. 983 Crores. With this, the order book of the company will be totally Rs.11,400 Crores.



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Now coming to irrigation projects, as communicated in the earnings call that there has been a delay in the collection of dues from the irrigation projects from the Telangana Government as the government has diverted its funding towards other essential sectors and services to prioritize COVID-19 relief measures. Now the outstanding receivables are around Rs. 500 Crores of which included billed and unbilled revenue. Now I will request Mr. K. Venkatram Rao, our GM to present the results for the quarter and financial year ended March 31, 2021. Over to you, Venkatram now!

K. Venkataram Rao: Thank you, Sir. Let me now take you through the Q4 and FY2021 standalone financial performance. For the Q4 FY2021, we have recorded a 39% year-on-year growth in our total revenue from Rs.676 Crores in Q4 FY2020 to Rs.936 Crores in Q4 FY2021.

EBITDA came in at Rs.182 Crores in Q4 FY2021 as compared to Rs.147 Crores in the same period last year. EBITDA margins in the current quarter stood at 19.5%. Profit after tax post exceptional items stood at Rs.77 Crores in Q4 FY2021 as against Rs.67 Crores in the same quarter last year.

Now coming to our standalone performance for the year ended FY2021, revenue from operations in FY2021 was up by 20% to Rs.2,703 Crores from Rs.2,244 Crores in FY2020. EBITDA witnessed a growth of 10% from Rs.487 Crores in FY2020 to Rs.536 Crores in FY2021. Our EBITDA margin in FY2021 stood at 19.8%, PAT for FY2021 was recorded at Rs.244 Crores as compared to Rs.225 Crores in FY2020.

The quick summary for the consolidated performance for Q4 FY2021 is as follows: The consolidated revenue for the quarter grew by 36% to Rs.991 Crores in Q4 as against Rs. 736 Crores in Q4 FY2020. EBITDA for the Q4 FY2021 witnessed a growth of 18% to Rs.222 Crores as compared to Rs. 187 Crores in Q4 FY2020. EBITDA margin in Q4 FY2020 stood at 22.4%; net profit for the quarter post exceptional item was Rs.95 Crores as compared to Rs.80 Crores in Q4 FY2020.

Now coming to our consolidated performance for the year ended FY2021. Revenue from the operations in FY2021 stood at Rs.2,904 Crores up by 18% as compared to Rs.2,452 Crores in FY2020. EBITDA witnessed a growth of 12% from Rs.622 Crores in FY2020 to Rs.699 Crores in FY2021. Our EBITDA margin stood at 24.1%. PAT for FY2021 post exceptional items witnessed a jump of 50% to Rs.383 Crores from Rs.256 Crores in FY2020. Please note that that the consolidated figure includes a profit on the sale of Walayar SPV amounting to Rs. 85 Crores which is accounted as an exceptional item in Q2 FY2021.

Now moving on to the standalone balance sheet, we continue to maintain a strong balance sheet. The company became debt-free in FY2021 on a standalone basis. Our working capital days stood at 82 days as against 54 days in FY2020. The working capital cycle stretched due to increased receivables from the ongoing HAM projects for which the debt is yet to be drawn. The



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consolidated balance sheet has undergone a change due to the deconsolidation of the Walayar project on account of sale to Cube Highways. The consolidated debt as of March 31, 2021, is Rs.729 Crores as compared to Rs.845 Crores as of March 31, 2020. The net debt to equity as of March 31, 2021, stood at 0.3 times as compared to 0.48 times as of March 31, 2020. With this, we open the floor for question-and-answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Good afternoon to the team. Sir, the first question, if you can directionally tell us, and I understand you have been talking about the Cube deal to happen soon, when a deal, I am saying the fructification of money, but can you help us understand what kind of timeline now we are expecting given PCOD also should be in the near term should be there, for our assets so I do not want to dwell more on the valuation, but just to understand when the cash will start coming in the company, what is the timeline we should look at it? That is my first question.

K Jalandhar Reddy: Good afternoon. Regarding the Cube deal, PCODs could happen on three projects which are HAM .as you all know the project in Tirupati that is in Andhra Pradesh that Chittor to Mallavaram, we are expecting by the first week of next month and the second one most likely we are expecting in the third week of next month. It is an approximate estimation because we have done all the work, only that some safety caution boards need to be installed, because of the oxygen shortage to the suppliers, they are unable to get the supplies to us. That is the major problem that we are facing. Otherwise, we have already one month ago, we were ready for COD. Actually, even the RO level visits are over; they said once you have installed the thing, you can move your application. That is the situation. So, it could be around that and Ramsanpalle to Mangalore which is in the state of Telangana that was to happen maybe in a couple of months. You all know that we are now suffering on account of the RBI +3% clause, because of that valuations we need to look at it and then we should take a call, but however, the discussions are going to start after COD, once the COD is in we should be able to make the conclusion in the coming three to four months after COD.

Nitin Arora: The deal is subject to the RBI approvals of the interest rate thing, or the deal is done, yes, I am just trying to understand, does the deal come in risk, if RBI does not approve?

K Jalandhar Reddy: Actually it is not about approvals from RBI or something. It is completely about the clause what we have the escalations for our rate of interest is on RBI plus 3%. So, the bank rate is now RBI rate. In recent contracts, they made by bank's average and all that, that is okay now. We are now not talking about, these are the old contracts, conceptionally there is no change to that. Because these contracts are signed, and they have been under execution and all. So, now they are virtually not looking at changing it. The thing is RBI cannot be the current situation is that the RBI is on the lower side and banks are changing very high. So, there is a difference in to the banks and our



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escalations being paid, the differential is almost 2% to 2.5%. But going forward because of this pandemic situation and all, the worse things are happening. Going forward even RBI can go up and things could turn up, so there should be a sort of negotiations which is also acceptable to us and which could also be accepted by Cube. So, there is a mutual exchange or solid discussions to take place and if we are valued very less with this clause, then the deal may not happen because we should have a proper price, I mean to say. I am ready to forgo something, but it is not that okay, they estimate that all 10 years it is going to be like this or some assumptions they make and they want to cut down on the valuations we may not accept it. In that case, we are ready to take the risk. Today looking at the point concerned today we have become debt-free by God's grace, and we are comfortable to invest in our own projects also right now. So, the kind of situation that okay, we want to have cash inflow so that that business growth can happen and to go and also we want to mitigate our risks into a long-term contracts even include prices.

K. Venkataram Rao: Just want to like to add that because now this NHAI has leveraged the policy that within six months from the COD it can be transferred. So definitely evaluation aspect that we are discussing with them, the deal is on and maximum timeline if suppose the project is completed in Q1 so within six months from the Q1 we will be able to get and receive the funds subject to discussion on the valuations.

Nitin Arora: I got your point. It is very helpful. I was just trying to assess that this interest rate thing has it really caught into you a valuation or the valuation of the project down even below book value because that is where you want to take a risk or you are fine, okay, let these projects go ahead?

K Jalandhar Reddy: We have not come up to that stage. The discussions are yet to be taken place. I think if they are reasonable we would like to sell, it is not that I would not support it. The positive angle which we have taken is we want to sell that is the thing, but I am not desperate that I could sell at loss. This is the concept which we are keeping now.

Nitin Arora: My second question is on the current order backlog if you can throw some light on this, I would not say slow-moving, but the irrigation orders I think were Rs. 2,000 Crores plus what is the status there, when the ramp-up will start happening faster or slower?

K Jalandhar Reddy: Actually, the irrigation concern the Palamuru project the Mallanna Sagar pump house project is now just starting, I think, the land acquisition issues are cleared and a month ago, we have started the work, slowly it is picking up, but the canal project concerned, the inflow canal, this pump house, which is still pending with the land acquisition, and moreover any of the bigger project has started so meanwhile even the small project around Rs. 640 Crores or Rs. 670 Crores that project is that will also pick up. I think it will take another four, five months; I am not very sure, before that they will be able to give.

Nitin Arora: Lastly, on this irrigation receivables, if you can, you know, you have recovered that, what you said, and been guiding to all of us, you recovered quite decent amounts, but now if you can throw



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some light how much is pending on the irrigation receivables and how do you see a scenario at the ground level now given what has happened in the second wave? Do you see a risk or do you think the things are manageable, states are getting loans, they are getting money from the centre eventually the money will come to us. That is my last question. Thank you so much, Sir.

K Jalandhar Reddy: Actually, the payment concerned we have and no doubt we have huge due with the state government around Rs. 500 Crores is pending. When do we get, again, the thing was that we would have got something in the coming one, two months, but because of this pandemic situation, you know last time the same thing happened and the amounts were piled up, but they cleared also. Moreover, the problem is with these projects are being tied up with funding from NABARD and few other banks. So, only that if they pay the margin money we would all get the payments. It is only that state governments call that when they will pay the margin money and see that these loans are under process. So, I think, hopefully, if this Corona situation is going to get down in the coming, one to one and a half months, probably we should get another two, two and a half months we should get all the payments.

Nitin Arora: Thank you, Sir. I will come back in the queue for more questions. Thank you so much.

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

Mohit Kumar: Good afternoon Sir. Congratulations on a good set of numbers. Sir, the first question is what is your guidance for revenues and EBITDA margin for FY2022 and how the effective revenues booking across irrigation and road? Can we expect more irrigation contribution in FY2022?

K Jalandhar Reddy: FY2022 before March, we have targeted about say 3000 plus, we should make as a topline. Unfortunately, what happened the first week onwards of April, the labourer started having the COVID cases in our project sites and today each site is having almost 60-70 cases and we have been announced as a Red Zone and that is where the problems which we are now facing. I think a few cases are also getting cleared in one or two days and we are able to run. It is not that completely projects have stopped, but we are able to run with the various projects in the various percentage of efficiencies like irrigation, we are trying to work at 60%, 70% efficiency. It is happening, but because of the land problems again there is a break and other new projects that they are not getting started. Second, we are now on the road projects at least 50% to 60% efficiency is going on, but in Tamil Nadu projects we are at least down by 40% only we are able to make. I mean to say efficiency. If I do on a regular kind of about 100% efficiency, now I am talking about 40%, 45% efficiency in Tamil Nadu. Except in Tamil Nadu all other places, we are able to run at 60%, 65%. The guidance for the next, there are lots of if's and but's. We have received new orders in three big projects, which are almost Rs. 1,100 Crores from Periyashanti to Bantwal that is in the state of Karnataka and another two projects put together around Rs. 4,500 Crores in Kerala. Those projects when they are going to start? That is going to be a big question. They were asking us to come on to the agreements we are not able to conclude the agreements,



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sign the agreements right now. I think another one month we will be signing the agreements and from there five to six months if they are able to provide the land. Definitely last quarter, or in this FY2022 at least four months, which we are able to work in those projects, definitely we are going to do a better job. Second, this first quarter we have lost because of these COVID issues, so altogether there are if's and but's, but internally we have a target, tough target, I mean to say, 3000+ Crores we have kept as a target. For guiding purpose, if I achieve this year figure, it would be a great job for me that I am thinking of right now.

Mohit Kumar: Sir my second question is what is the receivables position at this point in time, and do you think the increased receivables which are happening from FY2020 to FY2021 from 54 to 82 days what is your target, how do you think this will proceed going ahead and do you think that once the NABARD gives if Telangana ties up with this irrigation fund in NABARD, would not this entire thing get paid up or is it do you think this is a level at which his will sustain now going forward?

K. Venkataram Rao: Out of Rs. 863 Crores of the receivables as of March 2021, out of that Rs. 525 Crores receivables pertains to our HAM projects that is the captive project. So, as you know that and balance Rs. 300 Crores is pertaining to the irrigation, as of March 31, so if you see around more than 50%, Rs. 525 Crores pertains to the HAM project and for that actually, we have not gone for the disbursement from the bank. The reason is being that because in the parent company we are not using any working capital and we have almost Rs. 100 Crores of the cash balance as of March. So that is why we have not gone for the disbursement from that SPV. If we can reduce this receivable by taking disbursement in the SPV and paying to KNR. That is why we can say outstanding receivable is only be around Rs. 350 Crores actually, the balance is on a captive receivable.

Mohit Kumar: The client thinks to take the disbursement, is there any particular reason?

K Jalandhar Reddy: If I have to take the disbursement in the SPV then I have to pay interest cost there and here actually in the parent company the cash requirement is not there because cash is there in the parent company, only when the parent company needs the money then only we should give the money to save the interest cost in the SPV, if we save the interest cost in the SPV when we are selling this project to some prospective investor, so whatever the cost-saving this also passed through, so we can increase the valuation in that SPV.

Mohit Kumar: Understood. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Good afternoon and congratulations on the great set of numbers for this quarter. Sir, on these three HAM projects, which are in advanced stages of completion so at what physical progress that you take the disbursal if you start taking disbursal from the banks?



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- K. Venkataram Rao:** Definitely before COD we take have to take the entire draw, we have to draw the entire money, so definitely in this quarter in one of the projects we have gone for the disbursement in this quarter, but definitely by end of the June we will try to take disbursement from the bank for these three projects.
- Parikshit Kandpal:** So, you have completed 60% to 70% of the projects and you have still not taken disbursements from the bank, this is what you are saying?
- K. Venkataram Rao:** Yes, correct.
- Parikshit Kandpal:** So, just from the NHAI advance and then your own internal cash flows you have been able to manage this 70% completion in each project?
- K. Venkataram Rao:** Yes, correct.
- Parikshit Kandpal:** My second question was on you have been targeting to diversify outside road. So in the last year did we do any of the projects like in metro or in any other segments besides putting it in target and do we do anything?
- K. Jalandhar Reddy:** Pardon, Sir?
- Parikshit Kandpal:** Sir, in non-road segments did we bid anything in the last year, tenders in metro or some other projects so besides what in railway and in the road, did we bid for other projects in the last financial year?
- K. Jalandhar Reddy:** No, the road projects are only ample. They are coming up and even irrigation also we have a handful of orders. We have not given a thought in bidding in a new kind of metros or into railways or anything, maybe going forward we would look at it, Sir.
- Parikshit Kandpal:** My other question was on mobilization advance, you can tell out that what is the total eligible amount of mobilization advance you could have taken and how much of that we have availed?
- K. Venkataram Rao:** As of now mobilization advance outstanding is around Rs. 150 Crores that is basically pertaining to our Avinashi project in Chennai we got project. So this is only due what we have availed actually.
- Parikshit Kandpal:** What could be possibly would have availed as you wanted to take the entire mobilization advance?
- K. Venkataram Rao:** Whatever the existing HAM project is there all mobilization advances we have availed and recovered also.



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Parikshit Kandpal: We have already availed. So there is nothing pending, only from the new projects we would have to get mobilization advance?

K. Venkataram Rao: Yes, you are correct only from the new projects.

Parikshit Kandpal: Just lastly on the Walayar project under-recovery front, so if you can highlight that from the deals, which we have signed with Cube so what is the status of the toll collection there and do you see further write-downs happening on an account of under-recoveries, which may come to us so if you can give some sense on that?

K. Venkataram Rao: In the Walayar project actually we have to receive some part of the money in the different tranches. As of March 31 2021, we have received the entire money and now the next milestone is in March 2023. So whatever the milestone mentioned, but we have got almost, there are only just Rs. 1 Crore to 1.5 Crores we have not received balance every money we have received from them.

Parikshit Kandpal: So, just on last thing you said Rs. 150 Crore advance for mobilization. So what do you really think would be the bid pipeline because you said that Rs. 2.25 lakh Crores is NHAI pipeline, so if you can first highlight last year our total order inflow is how much and if the NHAI pipeline is growing by 30% to 40% so why we are under guiding in the market on the order inflows for the next year?

K Jalandhar Reddy: So, it is not in the under guiding or something, today I would have participated in most of the bids last year, but we were successful only in five to six bids. So it is the ratio of what we hit. Sometimes even if you bid on 50 to 60 projects you may win one or sometimes you may win 4 to 5, so the concept is to add at least Rs. 2,000 Crores to 3,000 Crores. Rs. 3,000 Crores minimum we need to add every year that is what we are thinking and going forward because even the HAM projects or any other except EPC any other projects would start only after we bid and it is taking almost 8 months according to contract it is 8 months after only that we can take out some revenues, so in that case, we have to bid advance at least one year in advance we should be there to pick up the new orders and all. Once you wait for these orders to get down again you will come into pressure and then you will have to under quote and you need big order and the market is not geared up to give you that much order. Definitely there will be pressure on the margins, so which really not a good sign.

Parikshit Kandpal: And order inflow for FY2021, what was the total order inflow?

K. Venkataram Rao: Order inflow FY2021, it is around Rs. 8,400 Crores, Sir.

Parikshit Kandpal: Just lastly on the HAM deal, you said that you are looking at giving a little bit of space on negotiation so we should be fair for both the parties, but it is right to understand that the deal will happen at a premium to the book value right that should be the right assumption?



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- K. Venkataram Rao:** Yes, definitely.
- Parikshit Kandpal:** Fine, that is all from the side and all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** Good evening, Sir. Thanks for taking my question and congrats on a great set of numbers yet again. Sir, just two questions from my side, on the receivable part you mentioned that out of Rs. 860 Crores of receivables and Rs. 525 Crores is from HAM projects and around Rs. 300 Crores from irrigation projects, am I right, Sir?
- K. Venkataram Rao:** Yes, correct.
- Vibhor Singhal:** Sir, you also mentioned that the receivable outstanding from a Telangana Government of the irrigation project is around Rs. 500 Crores?
- S Vaikuntanathan:** That is as of date. Rs. 500 Crores includes unbilled also.
- K Jalandhar Reddy:** As on today according to the DPR.
- Vibhor Singhal:** So, in March 31, 2021, it was around Rs. 300 Crores?
- K. Venkataram Rao:** Yes, correct.
- Vibhor Singhal:** Sir, this Rs. 525 Crores of HAM receivables that we have, so as you mentioned as long as we are comfortable with the cash position in the company you will not be drawing more debt on the HAM. So this Rs. 525 Crores number might have to remain in our balance sheet for some time also unless we have to draw debt at the SPV level?
- K. Venkataram Rao:** Yes, definitely, but before COD we have to draw the money. That is there because we have to draw the money, we will draw the money before COD.
- Vibhor Singhal:** Sure, Sir. In terms of bidding for the next year, as you mentioned that we are looking at around Rs. 3,000 Crores to 4,000 Crores of inflows and mainly from the road segment only, we have recently seen a very high level of aggressive bidding in the projects. I mean in EPC we have 35 to 38 bidders, in HAM also we have 15 to 20 bidders coming in so do you believe in this kind of competitive environment, we will be able to get projects at our threshold margin levels either in HAM or EPC, or do you think that because just to avoid that we might have to look for more state highway projects or irrigation projects or something like that you might want to look at?



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K Jalandhar Reddy: Yes, Sir you are right. We are even looking at state highway projects and most of our state highway projects are running in Tamil Nadu and Telangana. So, both the states, we felt as of now there is a delay in payment that we are facing in Telangana, but Tamil Nadu is promptly they are paying. As of now, we have not seen any crunches there. Second, talking about the order book concerns, I would always, this time we are not desperate that I should pick up Rs. 3,000 Crores. So we will be floating our bid, if we are successful, otherwise, we also fine, because I do not have to take any order on the pressure now, so I do not have to compress my margins. As of now, we are confident that whatever the orders even which we have picked up they have enough margins, but however, one of the most bothering factors here is that cement and steel and fuel prices I mean to say diesel prices. These are all ruling very, very bad this time, so going forward we will have to strike a balance on these also.

Vibhor Singhal: Sure, Sir. Just one last bookkeeping question from my side. What would be the kind of capex that we are looking for this year given that we will have more irrigation projects to wit it on or what could be the range of capex for FY2022?

K Jalandhar Reddy: So, it is not that. I do not have a particular concept, but we would be striking our bids, which are all successful they will form the priority. I don't have a priority that I need the order here only and from the road only. I do not have the priority. I would be bidding whatever the opportunities that are coming forward in which I am successful I would be the successful bidder and then that becomes my priority.

Vibhor Singhal: No, my question is on the capex, the machine, the different capex that we are looking for to this year?

K Jalandhar Reddy: Of course, actually this is one concern. We have already placed the order on pumps and all for the pump house projects and yes, definitely we are going to have quite a good amount of capex because the Kerala projects, which are worth Rs. 4,500 Crores. These are a huge big projects and there is a lot of earthworks that are involved and even that Mangloor project also I mean say Periyashanti to Bantwal that project also involving a lot of earthworks so definitely we will have to increase the capex. I am estimating not less than Rs. 200 Crores to 250 Crores this year.

K. Venkataram Rao: But, most of the capex will come at the end of the year because this project is going to be started by Q3 or this year so definitely what we have told that Rs. 200 Crores can be spilled over to next year also, but of the capex will come at the end of the year.

Vibhor Singhal: So, this year will be Rs. 100 crores capex, Sir?

K. Venkataram Rao: This year might be around Rs. 100 Crores to Rs. 130 Crores.

Vibhor Singhal: Sure, Sir. Thank you so much for taking my questions and wish you all the best.



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- Moderator:** Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** Thank you for the opportunity. Sir, so basically I was asking that given that three HAM projects, which we concluding with Cube, we have shown out of the estimated debt we have grown lesser amount almost Rs. 930 Crores is due as of March as per the presentation so that is the amount may be draw by this quarter as you mentioned that COD will be in the next month for the two projects and a couple of months for the third project, so in the first half you will draw around 930-odd Crores?
- K. Venkataram Rao:** Rs. 930 Crores?.
- Chintan Sheth:** So, Trichy estimated debt was Rs. 380 Crores, BM-4 only Rs. 106 Crores similarly, Chittoor we estimated debt of Rs. 570 Crores we drew almost Rs. 200 Crores and Ramsanpalle project Rs. 17 Crores out of which we only drew Rs. 140 Crores so residual that amount works out to be Rs. 930 Crores, which we need to draw before the COD that is in the first half itself?
- K. Venkataram Rao:** Yes, definitely, for Tirumala and Shankarampet we have to draw the debt but for Trichy, there may be some COS that may come because the land is not available, to the extent of that we will not draw the debt, but as far as Tirumala and Shankarampet is concerned most of the debt is going to be drawn before COD.
- Chintan Sheth:** Sir, the second question, I have is on the bookkeeping side, if you can provide the unbilled part with the customer advance and the other aspects of the balance sheet on the working capital side?
- K. Venkataram Rao:** Mobilization advance is around Rs. 150 Crores and this retention deposit with the government is Rs. 180 Crores and what you asked advance?
- Chintan Sheth:** Due to customers and advances to subcontractor?
- K. Venkataram Rao:** Advance to subcontractors is around Rs. 102 Crores and due from customers is Rs. 215 Crores.
- Chintan Sheth:** On the liability side, I would like to have this due to customers and retention deposits withheld amount?
- K. Venkataram Rao:** Retention deposits withheld is Rs. 111 Crores, due to customers it is Rs. 387 Crores.
- Chintan Sheth:** That has jumped up a quite bit from Rs. 277 Crores last year?
- K. Venkataram Rao:** Yes, correct Rs. 277 to 387 Crores, yes.



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- Chintan Sheth:** Sir, on the progress, if you can provide a couple of projects where are we as of date, I will just ask the project name, so Chittoor to Mallavaram how much is pending now?
- K Jalandhar Reddy:** 92% it is completed, Sir.
- K. Venkataram Rao:** Pending orders would be Rs. 207 Crores for Chittoor.
- K Jalandhar Reddy:** That is up to March?
- K. Venkataram Rao:** Yes, March.
- K Jalandhar Reddy:** I am talking about now, Rs. 150 Crores is pending as of now.
- Chintan Sheth:** Okay, that will be completed in the first half itself.
- K Jalandhar Reddy:** Here I think COD, the inspections are over; we are waiting for the signboard to come because there is oxygen shortage so for cutting the signboards and making it they would need oxygen. So, because of that signboards are not coming up and you know the supplier was trying with the illegal oxygen; he was caught and put into jail also. I think he went to the police station. So a lot of that we are facing otherwise we are quite ready in that Trichy-Kallagam also there is a land problem though you have not asked, I want to tell you, that there is a land problem in almost 6.5 kilometres, the balance we are completing and delivering, there also another two to three weeks or maximum fourth week we should get the COD and there is also a signboards problem is there.
- Chintan Sheth:** Okay, no problem.
- Moderator:** Thank you. The next question is from the line of Parvez Akhtar Qazi from Edelweiss Securities. Please go ahead.
- Parvez Akhtar Qazi:** Good afternoon Sir and congratulations on a great set of numbers. A couple of questions from my side. First, the tax rate was pretty high this quarter so any particular reason behind that what is the tax rate that we expect going ahead? The second question is with regard to the pending equity for our HAM projects if you could give us a year-wise figure? Thank you.
- K. Venkataram Rao:** In tax rate, I would want to say that this year we have touched the 35% tax regime entire tax. If you see P&L for the entire year, we are at 35% and why we have taken this charge because initially, we had the MAT credit of around Rs.35 Crores that we have used in this year. So that is why this year and this year whatever the project which project we are supposed to get 80IA so that project is not there. Most of the projects were completed. So due to this reason, this year tax rate was very high, but from next year onwards definitely, we are going to adopt the new tax regime and we are going to adopt the 25% tax regime in the next year. As far as equity



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requirement is concerned out of this Rs.625 Crores of equity requirement we already invested Rs.365 Crores as of March and we expect that around Rs.200 Crores we are going to invest in 2022 and the balance of Rs.160 Crores will be in 2023, but we are also expecting that recently we have got this two Kerala HAM projects where equity requirement may come by around Rs.430 Crores. So out of that, we expect that 50% around Rs.215 Crores we have to infuse because generally bank will put the condition that 50% equity should be upfront. So total this year equity requirement may come around Rs.400 Crores.

- Parvez Akhtar Qazi:** Sure and just one last thing what be your standalone debt at the end of FY2021?
- K. Venkataram Rao:** Standalone debt, there is no debt. Around just Rs.71 lakh debt is there actually in the company. That is also working capital and against that, we have Rs.100 Crores of the cash balance is there. So as of March 31, 2021, the company is debt-free.
- Parvez Akhtar Qazi:** Thanks. That is it from my side and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Seetharaman R from Spark Capital. Please go ahead.
- Seetharaman R:** Thanks for the opportunity. In some of the other projects that I am able to see in the order book, can you indicate what is the status of the other projects, which is close to some Rs.1,100 Crores?
- K. Venkataram Rao:** You are talking slide number.
- Seetharaman R:** Slide number 31.
- K. Venkataram Rao:** This project contains other than what are the five top projects other than five top projects so these are the other road projects. That includes Hubli, Hosapete like that projects.
- Seetharaman R:** Is it possible to give a split?
- K. Venkataram Rao:** Other road projects that Rs.1,113 Crores. This includes Hubli is around Rs.145 Crores and the other list is there. That we can share with you. We have some GHMC projects all put together. We can share with you that list.
- Seetharaman R:** Okay.
- Moderator:** Thank you. The next question is from the line of Subhadip Mitra from JM Financial. Please go ahead.



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Subhadip Mitra: Good afternoon Sir. My question is with regard to your guidance. You did mention that you are looking to cross the Rs.3,000 Crores mark for FY2022? Any sense of the mix between roads and irrigation that you are looking at in the coming year on the revenue side?

K Jalandhar Reddy: Sir you are asking about?

Subhadip Mitra: The FY2022 revenue guidance? You said you will cross Rs.3000 Crores? The mix between revenue?

K Jalandhar Reddy: I said now it is a bit questionable, but we had a target at that time. We will try max what could be done on that and because of this COVID we are suffering. This time we are suffering a lot actually when compared with the first wave, it is ruining our situation but I was trying to achieve at least the last year figure is the best, which has come out. If I would achieve that, that will be a great job for me that is what I was thinking, but, it is all depending on the land acquisition. Now the new projects, which we got NHAI those, also have a lot of land problem. They would take another five to six months to clear. So it is very clear that in the coming two quarters we are not going to get anything out of those projects. Mostly the last four months of this year or FY2022 we would be able to do something out of that. Even irrigation concerned only pump house we are able to do that inside the canals. Input canals we are not able to do because of the land problem is there. Another five to six months they are also expected. So there are some predictions a little bit missing out of this. However, if we get clarity in one more month then definitely we can give you the clear bifurcation what sort of revenues are going to come from which sector I mean to say either road or irrigation kind of thing.

Subhadip Mitra: Understood and on the margin front Sir how would we look at it?

K Jalandhar Reddy: 14% to 15% could be ideally okay for this but again diesel prices, bitumen prices and again it is ruling on nowadays, which is cement and steel prices also. A lot of volatility is there. That is why this year I have achieved around 19% plus, but this time I am not sure. That is why I am again cutting down to 14% to 15% levels.

Subhadip Mitra: Understood. So it is that the commodity price rise that is coming in, is there no pass-through available in the contracts?

K Jalandhar Reddy: There is a pass-through. No doubt there is a pass-through, but in HAM it will hardly reflect anything there because our SPV and EPC contracts are without that component. That means around 5% to 6% we are padding in the pricing itself. So if it beyond that then there is an impact on the margins. If you come to EPC projects, it is depending on the WPI. Steel and cement somehow they do not represent a proper value in the WPI. That is where we are having a lot of losses out of this cement and steel.

Subhadip Mitra: Understood. This answers my question. Thank you so much.



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- Moderator:** Thank you. The next question is from the line of Jiten Rushi from Axis Capital. Please go ahead.
- Jiten Rushi:** Good evening Sir and congratulations on a good set of numbers. In terms of the Tamil Nadu projects obviously, the elections are over now so what is the payment cycle you are expecting and what are new operations particularly from that state with the change in government? Any highlights on that Sir?
- K Jalandhar Reddy:** I am not very clear with the question.
- Jiten Rushi:** I am asking about Tamil Nadu state because there is a change in government. So now we are doing one of the last projects thereof Rs.1,050 Crores plus in Tamil Nadu so payments terms should be the same or there could be some issue initially and again in terms of the opportunity size from that particular state. Are we looking for any new or large projects particularly from Tamil Nadu state projects?
- K Jalandhar Reddy:** Earlier I have not encountered any sort of discrepancies. I have been working in Tamil Nadu for the past 20 years I believe. So many governments changed but none of the public works got affected, but we do not know a new set of people are coming. Even the new generation of people have come under power. We do not know really but according to the department today also we have spoken to the department and they say there should not be any problem. So we are okay with it. Anything goes wrong we are the first one to inform you, Sir.
- Jiten Rushi:** I appreciate the transparency Sir and on the HAM projects as you were just talking about the cost escalation of the previous question, but Sir when you are asking for the grants from NHAI are you also get the price escalation from NHAI then that escalation is a pass-through your EPC right, Sir?
- K Jalandhar Reddy:** The contract between SPV and EPC is signed without that and the escalation whatever it is coming up that could be in the SPV limit only. We have an option either you can give a pass-through or you can do a lump sum including escalation contract, but banks who are lending are preferring a fixed cost to the EPC contractor. For the bankers, we are doing this.
- Jiten Rushi:** That again impacts our margins so there has to be some flexibility in this right?
- K Jalandhar Reddy:** Yes Sir but we could get something out of it because it is a lender's demand.
- Jiten Rushi:** I understand. On the unbilled revenue, you said Rs.215 Crores so irrigation projects would be how much in the unbilled portion?
- K Jalansdhar Reddy:** The unbilled irrigation projects around unbilled means up to March it is billed, but April and May need to be billed up. Another Rs.150 Crores to Rs.170 Crores is unbilled.



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- Jiten Rushi:** So as in March there were some Rs.215 Crores so in that, there is no irrigation component? It is all road components that I understand?
- K Jalandhar Reddy:** That is different Sir. That which we are not withdrawing because of our rate of interest. We want to control the rate of interest.
- Jiten Rushi:** My question was about the unbilled portion which Venkataram Sir said Rs.215 Crores as of March 2021 so what is the breakup because debtors you gave the breakup like irrigation and HAM so can you give the breakup for the unbilled portion of Rs.215 Crores if possible?
- K. Venkataram Rao:** Sure I will give you.
- Jiten Rushi:** No problem. Sir any thought on the revenues you are expecting from the newer project this year in Q4 because the revenue you are looking for some Rs.3000 Crores and we understand the land is going to be a big issue, but any thought if you can get some revenue from the newer project what could be your FY2022 and this year if things smoothen out from June Q2 onwards?
- K Jalandhar Reddy:** I am not very clear with this question Sir, please.
- Jiten Rushi:** If the execution picks up from Q2 and then you are able to get land on time for the newer HAM and EPC projects so what could be the revenue contribution from the newer projects and whether this Rs.3,000 Crores if at all you are targeting includes the revenue from new projects or it is excluding the revenue from the project?
- K Jalandhar Reddy:** I am expecting kind of 10% to 15% of this Rs.5,600 Crores.
- Jiten Rushi:** Sorry Sir I did not get you? What did you say?
- K Jalandhar Reddy:** I meant to say to 10% to 15% or near about.
- Jiten Rushi:** So that would be adding to your Rs.3,000 Crores if at all we reach?
- K Jalandhar Reddy:** Yes if at all it what happens in time. If at all it happens in the contract timing. If it is delayed again that will be deferred to the next year.
- Jiten Rushi:** Sir last question on the outstanding bid pipeline so we have seen a significantly strong bid pipeline from the state of Kerala and the other Karnataka and others so what is the current outstanding bid pipeline the outstanding bids?
- K Jalandhar Reddy:** It is very less. It is almost Rs.2,000 Crores to Rs.3,000 Crores, but we cannot say it is in pipeline because we cannot even imagine what is going to happen to the bid, which we have given. Sometimes I'm is the highest. Sometimes I'm the lowest.



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- Jiten Rushi:** Got it. Okay Sir, that is it from my side. Thank you and all the best Sir.
- Moderator:** Thank you. Ladies and gentleman, due to time constraints we will be taking the last question that is from the line of Ashish Shah from Centrum Broking. Please go ahead.
- Ashish Shah:** Thank you for the opportunity. Sir if you could give the breakup in revenues for the irrigation and highway segment for Q4 as well as for FY2021?
- K. Venkataram Rao:** For Q4, revenue breakup for irrigation is around Rs.180 Crores that comes to around 19.5% and for HAM for Q4 it is Rs.478 Crores and another EPC is around Rs.180 Crores. For the year ended irrigation is Rs.620 Crores that comes to around 23.5% and road HAM is Rs.1,350 Crores so that comes to around 51% and other EPC projects comes to around Rs.500 Crores that is around 18.5% and back-to-back is around Rs.118 Crores.
- Ashish Shah:** Sir if you could give the breakup of the four irrigation contracts also in terms of outstanding value. So is Mallanna Sagar by and large complete now?
- K. Venkataram Rao:** Mallanna Sagar is completed almost 93% is completed, Sir.
- Ashish Shah:** Right and how about Palamuru?
- K. Venkataram Rao:** Palamuru is around 35% completed.
- Ashish Shah:** Right and the two Kaleshwaram projects we probably have not done much?
- K. Venkataram Rao:** It is not billed for anything. Nothing billing has happened. It is pending only.
- Ashish Shah:** Sir just one last question to Jalandhar Sir. Sir last year around this time when receivables are building up we had a fair amount of confidence that we will be able to recover the amounts probably also because Mallana Sagar was much better funded than maybe the projects. So what is our confidence level? Are we going to go ahead and execute as much as we physically can given the constraints or we are going to consciously go slow and wait for the payments to catch up?
- K Jalandhar Reddy:** Actually, this pump house project concerned the loan tie-up is there. I am hopeful that things will be coming up. If it is not on time at least another two to three months we shall be able to get. So we are going ahead because there we are at least 70% efficiency we are receiving in irrigation. Rather roads only 55% to 50% and somewhere in 40% also. So kind of that and I am happy to continue this. Payments could come. I am very quite sure last time we believed and things were on line. So definitely I want to go ahead.
- Ashish Shah:** Thank you.



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

S Vaikuntanathan: Thank you all for joining us on the call. Please reach out to our IR Strategic Growth Advisors or us directly should you have any further queries. Stay safe. Thank you.

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