



“KNR Constructions Limited Q3 FY17 Earnings
Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the KNR Constructions Limited Q3 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantee 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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. S. Vaikuntanathan – VP - Finance, KNR Constructions Limited. Thank you and over to you, sir.

S. Vaikuntanathan: Good afternoon, friends. I welcome you all on our Earnings Call for the quarter and 9 months ended 31st December, 2016. Along with me I have Mr. K. Jalandhar Reddy – Executive Director, Mr. K. Venkatram Rao – General Manager, Finance and Accounts and Strategic Growth Advisors, and our Investor Relations Advisors.

Let me start with highlights of the budget for roads and highway sectors and then I will give an update on the company’s performance.

The government continues to focus on boosting spends on infrastructure sector which is visible in recently presented union budget. The affordable housing has been the theme of the budget this year. However, the allocation towards transportation sector as a whole has been increased this year too, in line with the previous years. The total allocation towards transportation sector in budget 2017-2018 has been increased by 12% to Rs. 2.4 lakh crores compared Rs. 2.2 lakh crores in budget 2016-2017. The NHAI has received the allocation of 65,000 crores compared to Rs. 58,000 crores in 2016-2017. Moreover, 2,000 kilometers of roads for coastal connectivity have been identified for construction and development which will improve the connectivity with various ports. The budget has also proposed to introduce an amendment bill to the arbitration and conciliation act 1996 which will help to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts.

On the funding side, NHAI has raised Rs. 10,000 crores through taxable bonds from EPFO and private placement to banks and financial institutions to the tune of Rs. 5,000 crores. Additionally, NHAI has also raised a 30 year term loan of Rs. 8,500 crores at 7.2% interest rate from LIC recently. In addition to this the government has identified 75 operational NH project for monetization under the toll operate transfer TOT model aggregating to 4,500 kilometers.

The annual toll collection of these 75 projects is estimated at around Rs. 2,700 crores. These projects are generating toll revenue for at least 2 years after the start of operations and the annual toll collection of these 75 projects is estimated at around for Rs. 2,700 crores. The monetization of projects under TOT model along with budget allocation and the fund raised by NHAI from

LIC, EPFO, Banks and financial institutions will fund the government's plan to push for the development of roads and highways in the next year. On the project awarding and the execution side, total length of the road projects awarded up to December, 2016 is 6,996 kilometer. Whereas the total length constructed is 4,699 kilometers.

The government's commitment to push through with project awarding under the new hybrid annuity model is visible in that till last month a total of 39 projects worth Rs. 34,800 crores has been bid out across 2,170 kilometer. Few banks and financial institutions have also assured NHAI for fast track the financing of the projects.

Now coming to the company, first I would like to start with key highlights of this quarter. During this quarter we along with Patel Engineering Limited have signed a share purchase agreement to sell entire equity stake in two road projects, namely Patel KNR Infrastructure Limited and Patel KNR Heavy Infrastructure Limited, to an Essel group company. The enterprise value of both these assets put together is Rs. 850 crores. During the quarter the company has sub divided the face value of each equity share from Rs. 10 per share to Rs. 2 per share. Now outstanding share has increased from 2,81,23,460 of face value of Rs. 10 each to 14,06,17,300 shares of face value of Rs. 2 each. The corporate action of this subdivision of equity sales was done to increase liquidity. Now on the road order book front, the outstanding order book of the company is Rs. 4,238 crores of which 52% orders are from central government, 42% from state government and 5% of order book is from international order. Of the total order book 85% is for roads, whereas balance 15% is for irrigation projects.

Now I would request Mr. K. Venkatram Rao, to present results for the quarter & 9 months ended December 31, 2016.

K. Venkatram Rao:

Good afternoon, everybody. I believe you must have had an opportunity to see our results and the presentation that has circulated and uploaded in our website.

Before moving to results, I would like to mention that during Q3 FY17 demonetization has only partially affected the execution of the company. However, we could have tied over it and currently we are not seeing any of our EPC project affected by it and execution has returned to being normal. I would now present the results for the quarter ended 31st December 2016. Total revenue on the standalone basis is Rs. 382.3 crores in Q3 FY17 as against Rs. 218.6 crores during the same period in the last financial year, a growth of 75%. Our standalone EBITDA for Q3 FY17 has been at Rs. 57.7 crores with margin at 15.1%. Standalone PAT for Q3 FY17 is Rs. 30.7 crores with margin of 8%.

During the quarter the company has entered into a share purchase agreement for sale of its equity in two BOT annuity project and correspondingly impairment in the value of the investment to the exchange of 10.86 crores has been provided as an exceptional item. The standalone adjusted profit that is profit plus exceptional item grew approximately 22% to Rs. 41.5 crores in Q3 of FY17, as compared to Rs. 34.1 crores in Q3 FY16. Moving to results for the 9 months ended December 31st 2016, total revenue on standalone basis is Rs. 1,058.9 crores in 9 months FY17 as

against Rs. 606.7 crores during the same period in the last financial year a growth of 75%. Our standalone EBITDA for 9 months FY 17 has been at Rs. 157.4 crores with margins at 14.9%. Standalone profit after tax for 9 months FY17 has been Rs. 104.8 crores with margins of 9.9%. Standalone adjusted profit after tax grew by approximately 8% to Rs. 115.7 crores in 9 months FY17 as compared to Rs. 106.8 crores in 9 months FY16. Now, I share with you a few numbers from the balance sheet as on 31st December, 2016. As on 31st December, 2016 the net debt on standalone basis is Rs. 149 crores which includes Rs. 122 crores loan from the promoters and the net working capital is 38 days. On consolidated basis, the net debt is Rs. 674 crores.

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

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Just wanted to know what was the new order wins in this quarter?
- K Jalandhar Reddy:** In this quarter we do not have any new orders. But however, we are placed several bids in recent days. In Karnataka we are placed bids for 2 hybrid annuity bid and we are now bidding on 4 or 5 Maharashtra bids which are EPC and further in Maharashtra we are also bidding on a one hybrid contract.
- Parikshit Kandpal:** And typically what will be the average size of these 2 hybrid projects which you are bidding in Karnataka, how big this will be and even in Maharashtra what kind of EPC orders on an average size you are targeting?
- K Jalandhar Reddy:** Yes sir, right now the Maharashtra bid I am talking about is a hybrid project model and is about Rs. 800 crores. Secondly the EPC ones which you asked about is around Rs.250 crores to Rs. 400 crores however, they are in continuation stretch, 2 projects, .
- Parikshit Kandpal:** And Karnataka?
- K Jalandhar Reddy:** Karnataka, we have bided for around 2 projects are nearly about Rs. 1,000 crores.
- Parikshit Kandpal:** By March we can expect all these bids will be open?.
- K Jalandhar Reddy:** Couple of weeks that Karnataka bids could open.
- Parikshit Kandpal:** And because the question comes from the fact that last year we had an order inflow of Rs.3,000 crores and this year initially we are targeted Rs. 1,000 crores of intakes and then we have already done Rs.1,700-1,800 crores of inflow. So, on a sustainable basis over next couple of years what kind of order inflow we are expecting? Somehow, we have grown in terms of topline but if the new order win does not translate, then we may have some challenges on growing a bottom-line going forward.

K Jalandhar Reddy: Yes, actually that is the main reason now the focus is being given on bidding. In this quarter, we have tried some bids but we were unsuccessful because the market is still heated up. Actually there are number of bids which are there in state Maharashtra in the month of February and in the month of March.. Once we bag good orders I do not think a huge pressure will be there on order in take by the company.

Parikshit Kandpal: But what kind of annual in take you are targeting now from the earlier stands of Rs.1,000 crores to Rs. 1,500 how much will we be targeting?

K Jalandhar Reddy: Actually this time, by this March and June quarter we are expecting at least Rs.1,000 crores to be filled up and going forward in the second and third quarter of this coming year we are also targeting some more orders because most of the orders which are getting closed, I mean to say that Trivandrum which is now getting executed by, will be able to complete most of it by June of this year. So, most of it, at least 80% to 75% completing, so we will be needing another order to allocate to the team. So, if I come to the month of December, the Madurai one which is getting executed that will reach another one there on 70% to 80%. So definitely I would also make another job for that team. So, likewise, we have lined up all the teams which can give us very good turn over. So, we have to see that teams are allocated with the work.

Parikshit Kandpal: Basically up to Rs. 2000 crores-3000 crores of order we can take in.

K Jalandhar Reddy: The order which is getting closed, at least 80% or 75% is executed, then we will be concentrating on the orders. So, by the time we commence this order, existing order which we are expecting to completed and then with same team we move on to the other project. So, the planning we have utilized very nicely, so that, the turn over improves continuous as well and the company also shall not be in any sort of pressure to that norm every time we will be requiring so many orders or you will be cutting it for yourself to get the more job. So gradually order picking up shall be happening on every quarter or not every quarter at least 2 quarters one big order we will take in.

Parikshit Kandpal: And sir, just lastly in Telangana our irrigation orders are slowing down. So, do we expect some order in flows, are we targeting any urban water segments, I mean how is Andhra Pradesh placed with this entire investment team, are there any new ordering which is basically go into counter balance its slowing of orders in Telangana?

K Jalandhar Reddy: Sir, I have also heard some urban water projects are coming up, literally there is no idea on the estimates, what set of orders are coming in and whether we will be eligible on those, however, we have partners also, SEW and Patel's and we have many other partner's with which we can even think of joining them, we are open for it.

Parikshit Kandpal: And AP sir? How was the ordering outlook in AP now?

K Jalandhar Reddy: Another thing in this section is that there are state government project, if they are calling on the tenders were the urban infrastructure projects, I think they will be budgeting in coming month.

So, once they are budgeted, we are confident that we will get payments, so we will go ahead with this.

Parikshit Kandpal: And sir AP outlook on AP ordering?

K Jalandhar Reddy: Actually I am not focused on it because the intensity of competition is very high in Andhra Pradesh, so we have just kept quiet and watching the thing how they are happening, lucrative bids are happening in the healthy manner then we will be focusing on that. Bids are coming from many other states, so we do not have to hurry on it much.

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

Shravan Shah: Sir, firstly on the HAM front as you already said that we are bidding for Karnataka and Maharashtra HAM projects. So, earlier we were not that much confident on the entire model. So, how are we placed now?

K Jalandhar Reddy: Yes, actually till now there is no situation which has become better, may be that's why we are not successful in getting the projects also till now. But however, I think because of the slowdown process in financial closure for the existing bids which have been awarded, we are also expecting some sort of sensible bidding to happen in these hybrid model.

Shravan Shah: So, currently how many? 5-7 bidders are bidding?

K Jalandhar Reddy: Yes, I am not seeing more than 6 bids in any of the bids till now. At the one's which we are placed, we have placed on 2 bids, one project has 6 bidders and the other project has 4 bidders only.

Shravan Shah: And second one you said there were 87 bids that were going to happen in Maharashtra, so what is the value and all are these EPC based and these are the state funded or the central funded one?

K Jalandhar Reddy: Actually these all are funded by ministry of Surface transport executed by the Maharashtra Road Development Corporation as well PWD in Maharashtra. So, what is happening here is that these projects will be funded by MoST only and execution is done in the state level, and total value of the work should be around Rs.27,000 crores if I am not wrong.

Shravan Shah: And sir, now in terms of ...

K Jalandhar Reddy: Ticket size varying from Rs. 150 crores to say Rs. 400-500 crores but very small. There is one project of size Rs.800 crores also, all are two lane roads only.

Shravan Shah: And sir, coming on to the revenue and EBITDA margin guidance, are we now going to upgrade our FY17 and FY18 revenue guidance?

- K. Venkatram Rao:** Actually, revenue guidance concerns, I think you may further expect another Rs.300 crores in the coming quarter and EBITDA is around say 13-14% we can easily get on it.
- Shravan Shah:** But so, sir you are saying the fourth quarter will be slightly lower than the third quarter because third we did .
- K Jalandhar Reddy:** May not be, but the thing is that the target is there, we have expected few more orders to take off. I know that Hubli-Hospet we are supposed to start it 3-2 months ago which we could not start because there is land problem, so the appointed date itself is not taken. We are likely to see an improvement in the first quarter of this coming year.
- Shravan Shah:** So and for FY18 now how do we see, how much revenue are we targeting?
- K. Venkatram Rao:** Sir actually this year around Rs.1,300 crore plus which, I think we will be able to achieve and next year would be around say, Rs. 1,400 to 1,500 crores sort of figures we can see.
- Shravan Shah:** 1400crores to 1500 crores.
- K. Venkatram Rao:** Yes, 15 anywhere between these because, most of the execution projects are already started only one more project which is yet to be started that is going to be started from April. So, that reasons everything we have taken into account and there are certain projects which are in a smaller size and they will be going out from say June-July onwards. because may be out of cash flow because that work is getting completed, few projects are getting completed also. So, looking at all these, I think we were confident about say 15 plus anywhere between 14 and 15 we shall have the figures.
- Shravan Shah:** And sir this Hubli-Hospet, when the appointed date is expected?
- K Jalandhar Reddy:** Hubli-Hospet sir actually, we are focusing on, March end we would like to take it but land is not coping up they are not coping up for the land.
- Shravan Shah:** So, how much is land available? 50%-60%?
- K Jalandhar Reddy:** Around 75% is available, so what we are doing is that even at 75% we are giving in a consent to take over. But NHAI is in dilemma, whether to give it or not? What is happening here is that these projects are bided last 3-4 months ago. So, by now we could have taken the appointed date atleast, so that you can mobilize on it. But such thing have not happened and another one more month we are going to lose on this account, so I am not interested, oaky 75% is there let us take it because we also need to, we are running out of targets. So, definitely we will let to take it in that. We like to commence the work because there is one more reason that 80-IA benefit is there up to this March 31st only. If we commence also that there is no use. Well within that we are under pressure to take over, I think you are understanding.

Shravan Shah: Sir, when I was looking at the quarterly execution run rate definitely. Rao sir, can provide the exact numbers but whatever I could gather from the order book which was there at second quarter and at the end of the third quarter. I can see that in Madurai also the execution was lower compared to the second quarter 84 crores versus 92 crores and in Thiruvananthapuram bypass only I think 13 crores execution was there compared to 73 crores. So, if you can give the quarterly, third quarter execution done for this major 5-7 projects then it would be great.

K Jalandhar Reddy : Yes, Madurai I had a reasons why things are down, is because of this Tamil Nadu government, what is happening here is that because of unstable government we have kept approval for as many as five quarries. There is an environmental committee, state level committee which sits on every month, clears the file but since 3 to 4 months that meeting has not commenced. So, we were not getting fresh approvals and old quarries which are there, either we have exhausted the quantity, whatever they have given and waiting for the new approvals to come down. So, we were unable to procure the soil from that because of the unstable government there.

Shravan Shah: Rao sir, if you can give us the quarterly ...

K. Venkatram Rao: For Madurai, actually this quarter there was turnover of Rs. 88 crores and for 9 months it is Rs. 247 crores and for Trivandrum December quarter it is Rs. 65 crores and 9 months it is Rs. 187 crores and third is major contribution from our Yedula project that irrigation site Rs. 23 crores for this quarter and Rs. 46 crores for 9 months.

Shravan Shah: And sir, how about that 3, Selem flyover and close other 3 projects in Tamil Nadu?

K. Venkatram Rao: Yes Tamil Nadu 3 projects they have contributed Rs. 102 crores for this quarter and 9 months Rs. 234 crores.

Shravan Shah: And Selem one?

K. Venkatram Rao: Selem has contributed to Rs. 10 crores for this quarter and Rs. 30 crores for entire 9 months.

Shravan Shah: And sir, lastly on the tax rate fund on the CAPEX front if you can tell for, what was the 9 month number and how do we see for the FY17 and FY18 number?

K. Venkatram Rao: 9 month we incurred around Rs. 81 crores CAPEX actually and we may require further Rs. 10 crores to 15 crores, so it may touch around Rs. 100 crores actually, further this year and next year also if we are getting the same HAM project it will be the same actually, Rs. 100 crores for the next year also.

Shravan Shah: And tax rate?

K. Venkatram Rao: Tax rate will be, right now, effective tax rate is coming to around 7.5% but we expect that tax rate for this year will come between 10% to 11% of this year and next year also it will be the same because all projects are 80-IA project almost 95% of our turn over is coming from the 80-

IA eligible project. So, this year and next year will be effective tax rate is between 10% to 11% only.

Moderator: Thank you. We take the next question from the line Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

Bharanidhar Vijayakumar: My first question is regarding this Pollachi-Coimbatore project, what is the status? Again I can see even that project is not moving yet.

S. Vaikuntanathan: Yes sir, actually the commencement has been taken in the month of December and , I think January we did around say Rs.10 crores to 11 crores. So, February also we are expecting another Rs.15 crores, so it is going on, now it has started.

Bharanidhar Vijayakumar: So it started from January.

S. Vaikuntanathan: Yes, actually once we have taken over the project, there is only tree cutting and some pipeline shifting these and all that we are tendering. So the turnover is less, but hopefully January quarter we are expecting something good there.

Bharanidhar Vijayakumar: The claim we would have submitted to NHAI for suspension of toll during the demonetization period.

S. Vaikuntanathan: Yes, we have submitted the claim and actually I am supposed to get around 90% immediately. I think we were waiting for that payment to happen, I think in a couple of weeks we will be able to get that.

Bharanidhar Vijayakumar: And how much will that be?

K. Venkatram Rao: We have taken the certificate from the banks whatever actual interest and also the O&M expenses. NHAI is paying only 2 things, interest and O&M expenses. To that extent whatever are the 24 days that we lost, we have submitted that, we will get it.

Bharanidhar Vijayakumar: Final question, so we can see in both our BOT projects Walayar and even the Muzaffarpur-Barauni, the toll collection is lower than our expectations. So, one on the Walayar front we had issues with the stretches ahead of its consequent or subsequent to our stretch not getting completed. What is the status there and what is the status with Muzaffarpur project and how much equity that we will be kind of infusing there to meet the interest short fall?

K Jalandhar Reddy: I think Muzaffarpur-Barauni, is according to the schedule only, that final completion is not achieved and we have applied and it is under consideration, I think in a months' time we will be able to get that final completion certificate. Once the final completion certificate is achieved we would be touching around 11 lakhs per day and there is another railway bridge which is under repair, once that starts, we do not know what is the impact but we are expecting some good growth in the toll also. So as the Muzaffarpur-Barauni concerned we have no risk, the project is a

complete back to back arrangement project for us. So, definitely there is no impact for us. However, it will not have any additional impact and this Kerala concern I think we have already paid back from debt, so which is now meeting the required this thing and both the sides there are projects which are pending or getting delayed to get the COD . On the Walayar side we have IVRCL we were thinking every time that 5-6 months we will able to close it but really it is not happening. But another 5-6 months we are expecting that to close down but the other side that Thrissur to this Vadakkancherry side we have KMC they are little bit faster, they are moving now and by this coming December they will be able to close the entire and open the COD also for that. From December onwards we can see some sort of good numbers coming from Walayar also, expecting.

Bharanidhar Vijayakumar: So, no more further equity infusion required in Muzaffarpur project, is that the correct understanding?

S. Vaikuntanathan: Yes, actually sir, whatever it is, it is already infused and there is some negative change of scope which is about say another Rs.15 crores we have to flow going ahead.

Bharanidhar Vijayakumar: Sir, could you give me the amount of equity infused so far at Muzaffarpur-Barauni?

K. Venkatram Rao: We infused Rs.52 crores actually, so far in Muzaffarpur-Barauni and Walayar is Rs. 397 crores actually.

Moderator: Thank you. The next question is from the line of Sandeep Jagwani from Narnolia Securities. Please go ahead.

Sandeep Jagwani: My question is pertaining to Thiruvananthapuram, what was the execution sir, for the quarter?

K. Venkatram Rao: It is Rs. 65 crores actually.

Sandeep Jagwani: And what amount of work is left on Arcot Villupuram and Selem?

K Jalandhar Reddy: You are talking left out work?

Sandeep Jagwani: Yes sir, left out work.

Sandeep Jagwani: Left out work in Selem and Arcot road project sir.

K Jalandhar Reddy: 35% to 40% is left over sir.

Sandeep Jagwani: 35% to 40% on both the projects.

S. Vaikuntanathan: Yes.

Moderator: Thank you. We take the next question from the line of Devam Modi from Equirus Securities. Please go ahead.

- Devam Modi:** Sir, so firstly wanted to check on what exact amount has been actually infused during the year in Walayar and Muzaffarpur project because 9-month net worth is much higher than the March 16 net worth in spite of probable operational losses there.
- K. Venkatram Rao:** There is no infusion for this quarter and this project actually.
- Devam Modi:** You mentioned Rs.52 crores you are infused in Muzaffarpur is it?
- K. Venkatram Rao:** It is cumulative actually.
- Devam Modi:** And in Walayar, how much would have been infused in the first 9 months?
- K. Venkatram Rao:** As of now we infused total 397 crores and there is no infusion for this quarter actually.
- Devam Modi:** And what would be the current ongoing daily toll collection at both these locations?
- K. Venkatram Rao:** In Muzaffarpur-Barauni, right now we are getting somewhere between Rs.8.5 lakhs to 9 lakhs per day in Muzaffarpur-Barauni and in Walayar it is between Rs.10.5 to 11 lakhs per day.
- Devam Modi:** And also just wanted to check that this major outstanding project that is Madurai, Thiruvananthapuram, Arcot, Selem all of these we should comfortably complete by FY18, right?
- K Jalandhar Reddy:** Actually most them I think they have time that is around, say 12 to 14 months on each project we have time. So, definitely within time we would like to complete some, one or two projects we are targeting to close 100 days before and get the bonus.
- Devam Modi:** And sir what will be some of the larger projects where we are looking at his bonus option of completing before 100 days?
- K Jalandhar Reddy:** Thiruvananthapuram I am looking to that mostly and Polachi also I am targeting to do that. So, these are the bigger ones and, if I go for this Madurai and all there is some soil problem because the governments are not stable, so environmental committees is not giving the permission at already told in this con call only about that. Because of that there is some impact on the progress also.
- Devam Modi:** So, we can hope that Thiruvananthapuram should I think get completed by March 2018 while Madurai, could get a bit spilled over?
- K Jalandhar Reddy:** No, March 2018, yes.
- Deban Modi:** Both should get completed by March 2018 or ...?
- K Jalandhar Reddy:** We have targeted both of them to be completed by March 2018 but we have to see Madurai little bit doubtful because even today there is no guarantee about the government, what is happening.

- Devam Modi:** And finally sir on the margin front we continue to manage comfortable margins of 14%-15% plus, so given the current commodity position and given the most of the orders that we have won are slightly earlier time and similar times. So can we expect this current margin territory of 14%-15% to continue comfortably?
- K Jalandhar Reddy:** '13-14% is possible sir.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Sir, my question was on the BOT projects that we have sold to Essel Infra. So you mentioned the enterprise value of the two projects is around Rs.850 crores. So, given the fact that we had already securitized the toll collection from these projects, what is the net cash inflow that could accrue to us on both these projects put together?
- K. Venkatram Rao:** It is around Rs. 25 crores we received.
- Vibhor Singhal:** Both the projects put together?
- K. Venkatram Rao:** Both the projects put together, yes.
- Vibhor Singhal:** And sir, secondly just the bookkeeping question what is the gross debt at the standalone level currently?
- K. Venkatram Rao:** It is Rs.162 crores. It includes Rs.120 crores from the promoters.
- Vibhor Singhal:** Rs.120 crores from the promoters?
- K. Venkatram Rao:** Yes. Otherwise it is only Rs.40 crores actually from the banks and the financial institution.
- Vibhor Singhal:** And sir, what is our target going forward, we been growing at a very strong growth rate in this year. So, how do we see this debt profile shaping up over the next 2 years, do you expect this debt probably to increase on the working capital requirements for the growth?
- K. Venkatram Rao:** So, for the present turnover of Rs.1400 crores and also for the next year we do not expect further increase in the debt. Whatever, sanction limit is available that is sufficient for us.
- Vibhor Singhal:** So, that should not be too much of problem in this sense?
- S. Vaikuntanathan:** Yes.
- Vibhor Singhal:** So, lastly again, this is a kind of a very routine question that we keep asking you every time, so given that we have a very strong order book and we have managed to grow around 75% on almost all the three quarters this year. The Rs.1400 to 1500 crores of topline guidance for next year seems to be highly conservative. It is just like a 10% kind of topline growth that you are

guiding for next year. So, is it because that some of the projects that we spoke the last projects they are not yet picking up execution, so they might get delayed or is it just being conservative side?

K Jalandhar Reddy: So, actually what is happening this year whatever we have done the projects are in peak and in the next year that Madurai, Trivandrum and all they are going to come down in the last 2 quarters. But they will be going up but there will be dip with them in last 2 quarters. So, there we cannot achieve so much turnover whatever we are thinking in a proportionate way what could happen in the coming quarters once we start, once we come to 80% stage and all then there will be turnover drop will be there from each project. We are anticipating and so, our estimate is like this. In any case we have any order inflow is there coming 1-2 quarters definitely it going to give very good impact coming third, fourth quarter. Because 6 months curing period will be there after that we will be able to take some **turnover** out of that.

Vibhor Singhal: In the current book, do we have any L1 orders?

K. Venkatram Rao: In order book, all the projects that we have got are only mentioned L1 will not form part of order book.

Vibhor Singhal: So, apart from the Rs. 4200 crores of order book are there any L1 orders in which we stand L1?

K. Venkatram Rao: No, right now there is none.

Management: Yet to open.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Sir, just missed out on that figure that you shared for your share of the 850 crores JV?

K. Venkatram Rao: Yes, actually what happened this we will receive actually Rs. 25 crores our equity shares, the debt will be taken over by the buyers.

Utsav Mehta: **Rs. 25 crores** is combined for both?

S. Vaikuntanathan: Yes.

Utsav Mehta: Sir, my question is for the awarding agencies, in these tenders that you are seeing is the land acquisition up to sort of required standards of 80% and how much time are you typically seeing between the L1 being declared and date of appointment coming through in terms of our land acquisitions still an issue, final; 10% or 20%?

K Jalandhar Reddy: It cannot be like that for every project but somewhat it is happening like this. Once we are within the period it will be taking another one more month to get the agreements done after that

agreement is done some projects are getting delayed by 5-6 months, 2 projects are even 9 months that have been delayed but however, if everything is in shape definitely 1-2 months we will be able to take the appointed date.

Utsav Mehta: Is this progressively getting worse the idea that I am trying to sort of come with over here is that during the times when NHAI was not awarding to many projects they went and collected a lot of land that land must now be getting exhausted. So, I just try to wonder if for the new projects, is there awarding land is becoming an issue?

S. Vaikuntanathan: Yes sir. A few projects are like that. We cannot generalize this to all but in few areas it is like this.

Utsav Mehta: So, any particular area this is concentrated in?

K Jalandhar Reddy: Sir, actually as and when the bid come up only we are knowing all this because generally we have not even studied anything before the bidding process is started. So, definitely we really have no idea. I think, if you take this scenario there are 87 bids which are in the Maharashtra state we do not know which has the land acquisition which does not have. Even to study each bidder they may not be studying all the projects. So, if any firm is concentrating to get at least 6-7 projects they will have to concentrate to study on all the bids. But it is impossible to study these bids in 2 months' time or 45 days' time. It is pure luck if you have a land you have it, it is not there, it is not there.

Utsav Mehta: So, it is basically luck basis, it is just whatever you draw as a chit is what yet?

K Jalandhar Reddy: Yes, because once it is coming under notifications for tender then only we are acting otherwise we are not acting, sir because there is no time.

Moderator: Thank you. We will take the next question from the line of Nitin Arora from Aviva Life Insurance. Please go ahead.

Nitin Arora: Sir, can you give me the breakup of your other income how was the interest income, what are the components here?

K. Venkatram Rao: For this quarter total other income is around Rs. 10 crores, out of Rs.10 crores, Rs. 4.44 crores is interest income and fair value of interest free loan.

Nitin Arora: This is what the promoters have given to us?

K. Venkatram Rao: No, this is the money, we are going to put in this SPVs, so you have to bifurcate as per IndAS, you have to bifurcate in equity and interest free loan. So, on that interest as per IndAS, so, major component is Rs. 4.44 crores is that is normal actually like some insurance claim this received and some profit on sale of assets.

Nitin Arora: Sir, can you give me this number if I have to go by IndAS this interest income that we are providing on a interest free loan. How much is this for the 9 months and how should be look this in ...?

K. Venkatram Rao: Rs. 11 crores actually.

Nitin Arora: And sir, for the whole year how you will be doing the accounting for this loans or how much is the amount if you give us a gross head figure also on that? Can you do this accounting?

K. Venkatram Rao: Actually, what are the equity because in Walayar is Rs. 397 crores and Muzaffarpur Rs.52 crores. So, what equity put actually we will bifurcate this into equity and subordinate loan and we will work out. If you look at I will give you detail calculation separately.

Nitin Arora: I will take it offline, no problem sir. Sir, with respect to one of the starting commentaries regarding the HAM projects people are bidding aggressively. In the last 2 years when we look at your commentary on it we were not that much, very much interested in going into the HAM projects I can understand the way the bidding happened this year?

K Jalandhar Reddy: Very good question sir. What happened after looking at this budget only we have changed our views on this because NHAI I think they have NHAI or Ministry of Road & Transport both of them have got only allotment of 12,000 crores out of this budget. And according to me whatever this amount is there that is enough for them to pay what is going on or whatever they have awarded, those execution only they will be able to pay these amount. Apart from that they have claim, up-coming claims, claims resettlements and all that there are lot of other expenditure is there with NHAI. So, definitely, now it is time for HAM only. I am anticipating in coming 3-4 months they will close all these EPC business and they will only go for this HAM. Everybody is thinking that we got a little bit good allotment than last year. So, that is going to fetch everybody something better. But then it is not so I would like to say in my views it is something different with some other my view is that this money is quite sufficient for them to run the ongoing projects only. But about the awards what they do in the year 2017 and 2018 there is no allocation for anything in this.

Nitin Arora: It totally depends our because their market borrowing figure is about 60%-65%, if it comes out then they can but they have another programs like Bharatmala, so let's see how it goes but the second question to that is that you mentioned about the aggressive part in the HAM. Sir, when we let' say see the HAM project any which was your value creations comes at the last 60% of the value comes in the last 5 to 6 years of the construction period. But aggressive bidding you know the revenue number, everyone knows the revenue number when the people are bidding for it because pre-defined we know he interest what the NHAI is going to give you for the first let's throughout the concessions. The only tinker part where the developer can tinker the numbers is only the O&M and the cost of equity?

K Jalandhar Reddy: Except O&M and all same thing what we are taking is the O&M to see generally what is costing as add little bit cushion any company to even that O&M is as a turnover it comes. So, minimum

profitability which should be there suddenly we are expecting we are not expecting anything beyond that. So, there no other components left for us to pay anything towards the debt or towards the equity.

Nitin Arora:

Sir last question from my end going by your guidance we have this nature of being conservative and looking at a project on the ground level. Barring the Hubli-Hospet do you see a chance where you mentioned about Madurai, so even if I am looking your current order it seems like you can match the Q3 revenues similar to Q4 I am not talking about next year but I was a little surprised where you seeing some issues at the ground level where you seeing that you might not achieve a similar number to Q3 in the revenue part? Sir, Q3 is about 382 crores topline which you did, so Q4 is something at the ground level you mentioned about few projects but even if I factor in a delay this number ideally should come in looking at your irrigation and your other projects as well?

K Jalandhar Reddy:

Actually said there are some projects that Tamil Nadu we have Villupuram-Arcot and all other projects they are also having some soil problems, right now. Definitely there it little bit drop but I do not think we will try to achieve whatever we have in our mind there is no problem that we have to think on that ground also, sir. January has gone out even February is gone out for 15%. So, we have no visibility about the government's movement even the governments settled down in 10-15 days further they may take another 1 more month to settle all these our issues. So, definitely I am losing the entire quarter also.

Moderator:

Thank you. The next question is from the line Prabhat Anathraman from B&K Securities. Please go ahead.

Prabhat Anathraman:

Actually, my question was also Tamil Nadu portion of our order book. So, we have around 1800 crores of orders from Tamil Nadu, how much of that would be State government and how much of that would be from the Central Government as an NHAI and MoRTH?

K Jalandhar Reddy:

Actually sir, it is most 50-50.

Prabhat Anathraman:

And sir, all through our conference call I have seen you, I have heard you raising some concerns with the current political situation in Tamil Nadu and giving the heavy concentration to Tamil Nadu in our order book, from your point from your perspective from company's perspective what kind of risk are you seeing to your order book there and how you are trying to mitigate that risk if it all things do not turn out in the kind of outcome that is favorable to the company?

K Jalandhar Reddy:

Actually what it is, it is mainly with the soil new, soil quarries which we need to get approvals we are doing the sufficient net worth according to our target. So, what is happened whatever that 3 months ago whatever the permissions we have got I think certain quarries have been given 6 months' time to operate, certain quarries have been given 9 months to operate and certain quarries have been given only quantity limit. Then use this month's quantity and then terminate and quarry permission gets automatically terminated. So, the quantity limit quarries have been already exhausted only the time limit wherever they have placed I think they are just little-little

running. We do not get in one more month if we are unable to get these quarries, new quarries at least definitely earth work is not happening much so other subsequent activities also will come down. So, that is little bit we are anticipating some sort of problem here.

Prabhat Anathraman: So sir, if likely said, in that one month if you do not get the approvals, so what is the likelihood that we drop some of our projects from our book?

K Jalandhar Reddy: Not much difference will be there but it goes beyond then definitely we will have some impact.

Prabhat Anathraman: And so, why I am asking this because even the Coimbatore project has been lying in the book unexecuted for the past one year we bagged it in May and it is just it been about 10 months now that the projects is still unexecuted in our book. So, how many projects would actually take you is there a chance that we will have to drop some of these projects from the book because there is no activity happening on the ground level?

K Jalandhar Reddy: No sir. Already Coimbatore is started, in the month of December we have taken the appointed date. So, by now we would have done around, say 20 and odd crores worth of job in it and it is going on, actually there is a big flyover in it actually. So, the flyover work is fully on, so even there is soil and all there is a problem that about the structures we are able to fully gallop on that and we are doing it. So, we have alternate arrangements but somehow, I have some hitch in it that is it. Otherwise there is no problem, definitely you can achieve whatever we are targeting.

Prabhat Anathraman: Sir, my next question is on the BOT side we are doing say 900,000 per day in Bihar and 11,00,000 per day in Kerala. So, on a cash breakeven levels what can be the per day revenue toll collection run rate according to the company's estimates?

S. Vaikuntanathan: In Walayar already we have reaches the stage where it is at self-sustaining basis because the debt level and the toll level, toll collection level it is sufficient and with regards to Bihar once we reach around 13 lakhs per day, there I think can we can meet out the interest element.

Moderator: Thank you. We will take the next question from the line Sandip Agarwal from Naredi Investment. Please go ahead.

Sandip Agarwal: My question is regarding the share purchase agreement to sell equity share. Equity stake in two road BOT assets. First one is basis of calculation of impaired amount provided in quarter third result?

K. Venkatram Rao: Yes, basically in FTA actually, so what are our equity position how much you will receive, how much equity you have put minus how much amount we are going to receive. So, balance has been provided in this quarter.

Sandip Agarwal: Sir any more provision required?

- K. Venkatram Rao:** Because there is some further adjustment will be there in the pricing that is the, that will once we will sell for final deal. So, may be some provisions may be required but it will not be the substantial.
- Sandip Agarwal:** Sir, any payment received regarding this sale agreement?
- K. Venkatram Rao:** No, it has to be received because some of the condition precedence is to be required that we have to fulfill basically that approval from lenders and the approval from the NHAI that is in very advanced stage and we expect that by march end actually we may able to complete this deal.
- Moderator:** Thank you. The next question is from the line Amber Singhania from Asian Market Securities. Please go ahead.
- Ambar Singhania:** Sir, just wanted to know how much is the total loss so far in 9 month in Walayar and Barauni project?
- K Jalandhar Reddy:** There is no loss as of now, sir. I think our Muzaffarpur–Barauni is talking the required toll. Once looking at the final completion I think it will reach the target also.
- Ambar Singhania:** Which is 15 lakh you are saying as per day?
- K Jalandhar Reddy:** So, not 15 but it would be once finace COD is achieved around 12 to 13 it will go what I am thinking what I am thinking and there is a bridge which is broken the railway bridge has been broken from past 2-3 years. That is now getting almost final completion stage is there that repairs whatever they are doing. Once that gets open for the heavy truck then there is improvement in this.
- Ambar Singhania:** And Walayar sir, whatever toll collection we are doing is breaking even on a cash level, right?
- S. Vaikuntanathan:** Yes.
- Ambar Singhania:** Secondly sir, seeing the precedence in the earlier BOT project which we have followed and now as you are bidding for the further HAM projects any plans to monetize these two assets also or securitize it as such?
- K Jalandhar Reddy:** Yes, once we complete that then we are giving a thought. Wherever there is a target, in our target toll is there. There we are planning all these.
- Ambar Singhania:** So, first to go will be Walayar in this year in FY18? Will it be safer to say?
- S. Vaikuntanathan:** Bid out of all these projects.
- Moderator:** Thank you. Rest one is the line of Shravan Shah from Dolat Capital. Please go ahead.

- Shravan Shah:** Sir, just re-verifying the number, you said Muzaffarpur–Barauni per day toll collection is 8 lakh this quarter ...
- S. Vaikuntanathan:** Per day is 9.2 lakhs.
- Shravan Shah:** Because for the third quarter if I average it out then it comes to 5.3 lakh, so is there a toll increase or something? Because now you are saying the number is close to 9 lakh.
- K. Venkatram Rao** Yes, definitely because what happened in that project some of the leakage are there, we have identified that and we have plug in and we have put some of the weighing machines also. So, with some of the major changes we have undertaken actually, so that is why that the collection has been increased.
- Shravan Shah:** So, right now the current toll is 9 lakh you are saying.
- S. Vaikuntanathan:** It is coming around 9 lakhs per day.
- Shravan Shah:** And for Kerala project in terms of the toll hike when it is?
- S Vaikuntanathan:** No, at present we are collecting around 11-11.2 per day.
- Shravan Shah:** No, toll hike dates sir, I am asking.
- K Jalandhar Reddy:** This year revision will be this March 15th will be submitting for the toll hike, I think it gets approved by April 1st onwards we are able to collect the new toll rates.
- Shravan Shah:** And sir, is there any limit or any thought process in terms of how much equity we are planning to put in HAM projects, so is it also criteria in terms of bidding the project that we want to put only may be 50 crores or 100 crores in next 2 years.
- K Jalandhar Reddy:** Yes, actually the thing is that according to my anticipation after this budget we have shown some interest to come forward because we always take HAM or whatever BOT projects just for the survival sake. As long as EPCs are coming we don't touch the HAM projects but once the EPCs are likely to come down that is what the talk, general talk even in the NHAI also, I think Chairman has directly asked all the general management to submit their bids in the HAM model only so upcoming will be in HAM only.
- Shravan Shah:** So, in terms of our part there is no equity criteria to be considered at the time of bidding?
- K Jalandhar Reddy:** Yes.
- Shravan Shah:** No sir, I still did not get my answer. What I am saying is do we have any thought process in terms of we want to put only 100 crores as an equity in next FY18 and FY19 or only in FY18? Is there any criteria?

K Jalandhar Reddy: Yes, 100 crores or 150 crores we are planning for this.

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

S. Vaikuntanathan: Thank you everyone for participation in our Earnings Call. We have uploaded the presentation on our company's website. In case of further enquiries, you may get in touch with Strategic Growth Advisors, our investor relation advisors or feel free to get in touch with us. Thank you for participation.

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