



“KNR Constructions Limited Q3 FY18 Earnings Conference Call”

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LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q3 FY18 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan - Vice President (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 quarter and 9 Months ended 31st December 2017. Along with me I have Mr. K. Jalandhar Reddy - Executive Director; Mr. K. Venkatram Rao - General Manager (Finance and Accounts) and Strategic Growth Advisors, our Investor Relations Advisors.

I will start by giving you some key budget highlights for the infrastructure sector along with the brief on the current scenario for the roads and highway sector and then I will give an update on the company’s performance.

The government thrust on the infrastructure sector has continued to remain strong in the union budget of 2018. The total capital outlay planned with the ministry of road transport and highways stands at approximately Rs. 121,000 crores which is higher by 10% as compared to previous year’s outlays of 110,000 crores. The outlay comprises of 59,000 crores through gross budgetary support and 62,000 crores through internal and external budgetary resources.

The money allocated by the government through various schemes are as follows.

- Allotment of Rs. 29,663 crores at the Bharatmala scheme for 2018-2019.
- Allotment of 1,200 crores for externally aided projects by World bank, JAIC and ADB.
- Allotment of Rs. 6,210 crores for developments and road connectivity in the North-Eastern region.
- Development of 1,708 bridges and ROBs under Setu Bharatam scheme.
- Allotment of Rs. 19,000 crores under the Pradhan Mantri Gram Sadak Yojana which covers the construction of 57,000 kilometer.

The government has also introduced levy of road and infrastructure cess on petrol and high-speed diesel oil of Rs. 8 per liter. However, the same time budget has abolished additional duty of excise duty of Rs. 6 per liter.

Moving on to the roads and highway sector update

The national highway authority of India has invited bids for length of 10,460 kilometers costing nearly Rs. 175,000 crores till January 2018. Projects for the length of nearly 2,700 kilometer costing Rs. 43,000 crores have already been awarded by the authority till January 2018. And there are plans to award 3,300 kilometers in February 2018 and 5,000 kilometer in March 2018 subject to a good response in bidding and cooperation from the state governments in land acquisition and project clearances. In 2017-2018 NHAI is said to complete construction in the length of 3,500 kilometer against the average in the last 5 years of 2,170 kilometer. To maintain the pace of construction NHAI has commenced works on 27 new projects covering 1,330 kilometer and will commence the work soon on another 50 projects covering 3,000 kilometer. Bank and financial institutions are now showing keen interest in the Hybrid Annuity Model and financing HAM project is now happening smoothly.

Now, coming to the company, update on BOT projects.

As you are aware, our 100% owned Walayar-Vadakkancherry project has started 100% toll collection and the current average toll collection is Rs. 14 lakhs per day. We are witnessing an improved toll collection on this stretch. The current toll collection is sufficient for principal repayment, interest payment and O&M payments.

In respect of project in Bihar that is Muzaffarpur-Barauni project, we have received 100% PCOD and currently we are collecting average toll of 13.5 lakhs per day based on 100% PCOD. In this project, we hold 51% equity stake and have invested around Rs. 71 crores. The total collection has been improving on a consistent basis.

Order book details

Our order book as on 31st December 2017 is Rs. 3,332.60 crores consisting of Road 72.72% and irrigation of 27.22% and which is mainly from NHAI which is 47.13%, state projects of 44.84% and balance 8.03% from other parties and an international order. To improve our execution outlook further we continue to bid projects and expect to win projects worth Rs. 3,000 crores to Rs. 3,500 crores in the next 12 months.

Now, I request Mr. K. Venkatram, our GM to present the results for the quarter and 9 months ended 31st December 2017.

K. Venkatram Rao:

Thanks. I believe you have had an opportunity to see our results and the presentation that we have already circulated and uploaded in our website.

Now, I would present the results for the quarter ended December 31st 2017

The revenue on the standalone basis is Rs. 433.19 crores in Q3 FY18 as against Rs. 382.28 crores during the same period in the last financial year, a growth of 13%.

Our standalone EBITDA for Q3 FY18 has grown by 71% to Rs. 98.38 crores with a margin of at 22.71%. The growth in EBITDA is led by unbilled quantity in some of the projects like Yedula, Thiruvananthapuram and Madurai which are substantially completed and also there is a reduction of back-to-back turn over, so yielding the higher margins.

The standalone profit before tax grew by approximately 84% to Rs. 62 crores in Q3 FY18 as compared to Rs. 33 crores in Q3 FY17.

The standalone profit after tax for Q3 FY18 is Rs. 65 crores with a margin of 15.16%.

Moving to the results for the 9 months ended December 31st 2017

The total revenue on standalone basis is Rs. 1,307.28 crores in 9 months FY18 as compared to Rs. 1,058.95 crores during the same period in the last financial year, a growth of 23%. Total revenue for 9 months FY18 includes Rs. 16.8 crores from the claims received by two joint ventures entity that is Patel-KNR JV and KNR-Patel JV.

Our standalone EBITDA for 9 months FY18 is at Rs. 265.40 crores as compared to Rs. 157.36 crores in 9 months FY17. The EBITDA margin for 9 months FY18 is stand at 20.30%.

The standalone profit before tax grew by approximately 63% to Rs. 187 crores in 9 months FY18 as compared to Rs. 114.92 crores in 9 months FY17.

Now, I will discuss few numbers in the balance sheet

As on 31st December 2017, the debt on the standalone basis is Rs. 228 crores including the promoter loan of Rs. 212 crores and the net working capital is 45days.

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

- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Priyankar Biswas from Nomura Securities. Please go ahead.
- Priyankar Biswas:** Sir, when I look at your irrigation order book that you have given it seems the number is higher than what it was in 2Q. So, was there any new order or is it a scope revision?
- K. Jalandhar Reddy:** There is a Rs. 500 crores order is added this year. I think last quarter only it is added.
- Priyankar Biswas:** What is not in the previous quarter, I mean this order?
- K. Venkatram Rao:** Actually, sir what happened in previously quarter actually we have received one project in this KP Sagar project, and in that project we are having 51% stake and one of the JV partner is not

doing the execution and has asked us to do the work. So, that is why order to the extent of around Rs. 110 crores has been added in current quarter.

Priyankar Biswas: And sir one more thing like regarding order inflows what is the status of this Karnataka HAM projects like, I think you have bid for that, right?

K. Jalandhar Reddy: Karnataka HAM, we have bided but the bids are to be opened. So, we are waiting actually.

Priyankar Biswas: So, is not it supposed to come out right now, I mean like within a next few days or something?

K. Jalandhar Reddy: During February around 20 bids we are trying to submit. But opening is only happening up for 4-7 I think in fact they are taking minimum 7 weeks to open it up. So, bid results are hanging. But some projects there are clarity, Bangalore-Mysore there are 2 packages we have submitted each of Rs. 2,000 crores but the bidding opening is happening only after another one months. Already 2 months is over, so some sort of delay is there from NHAI side to open up the tenders.

Priyankar Biswas: And sir, last question from my side, so what would your margin guidance be for this year because you had these completions increasing on margins. So, what do you see the whole year margin for FY18?

K. Jalandhar Reddy: We are not expecting much change it could be on the same. But however, the new orders are likely to be added in this last quarter or coming first quarter of the next year. So, during that there may be some changes from second quarter of the next year onwards.

Moderator: Thank you. We have the next question from the line of Gurpreet Arora from Quest Investments. Please go ahead.

Gurpreet Arora: Could you quantify the 30 bids which is you just highlighted you are trying to submit what is the quantum for that?

K. Jalandhar Reddy: Actually the sizes are different sir, that around in the month of February we have around another say Rs. 15,000 crores worth of contracts and in the March around Rs. 22,000 crores of projects, roughly. It is an approximate figure.

Gurpreet Arora: And can you give any order inflow guidance for this year and next year FY18 and FY19?

K. Jalandhar Reddy: Actually we are targeting around say Rs. 2,500 crores to Rs 3,000 crores this year and may be in the March, during February-March bids we are expecting 1 or 2 jobs, may be in the April-May we would like to take another 1 or 2 projects. So, the ticket size could not be, we are trying to see that ticket size could be little bit bigger only that organizing the projects and all could be easier. However, we are getting qualified even for the Rs. 2,000 crores works now. The bidding is now very open and it is happening in very short span..

Gurpreet Arora: In your irrigation order book of Rs. 907 crores how many projects are there?

- K. Jalandhar Reddy:** It is only two projects.
- Gurpreet Arora:** And last question from my side for the 9 months standalone interest cost, can you divide this interest cost among interest paid to Directors, processing charges, BG and LG charges?
- K. Venkatram Rao:** Specially this we paid interest to Directors for 9 months is around Rs. 8.91 crores and others is for our working capital and bank guarantee.
- Gurpreet Arora:** How much of the processing charge and BG and LG charges in this total?
- K. Venkatram Rao:** It is, BG and LG put together Rs. 4 crores actually.
- Gurpreet Arora:** And processing charge?
- K. Venkatram Rao:** No, it includes the processing charges put together BG, LG and processing charges.
- Moderator:** Thank you sir. We have a next question from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Sir, what would be the reason for the higher depreciation charges in this quarter and would that be expected to sustain going ahead?
- K. Venkatram Rao:** Sir, actually in our irrigation projects in Yedula what we have done almost 80% of work and in the new irrigation project time period is very less. The new irrigation project it will be only 18 months we have to complete and that is why actually we are working on three shift basis. So, now for other assets we take actually 7 years is the life because this project is very fast moving. So, that is why we are consider life cycle of around 3 years only, and that is why more depreciation has charged. So, till this irrigation project is completed depreciation will be on the higher side otherwise it will be normal.
- Devam Modi:** So, basically you are whatever machinery you have purchased for this irrigation project you are depreciating it over a shorter period is what you are saying?
- K. Venkatram Rao:** Yes, correct.
- Devam Modi:** And till when is this irrigation project expected to get executed?
- K. Venkatram Rao:** Because Yedula is going to executed by this, June and new project is by next year March.
- Devam Modi:** But would this like lead to a situation wherein once the irrigation project is complete then your depreciation would again come down towards Rs. 24 -25 crores run rate?
- K. Venkatram Rao:** Yes, in the same range only if we do not get any further irrigation projects.

- Devam Modi:** But then even if you get a further irrigation project you would either write back the depreciation or you would sort of continued but it could depreciate on faster right?
- K. Venkatram Rao:** If it period is also less, then we have to charge because general irrigation project we have to do work fast. So, that is why life of the assets is very less.
- Devam Modi:** But so, just one thing I do not understand, so if you get another irrigation project you will need to buy more machines again?
- K. Venkatram Rao:** If this project is completed then we will shift this machinery to that project.
- K. Jalandhar Reddy:** Actually if we get another project the project which the first one which we have taken at that is the Palamuru irrigation project that is getting completed maximum by March-April. So, June onwards the entire machinery is getting free, so that we can use in the new road projects or in the irrigation projects. The equipment is now sufficient.
- Devam Modi:** And sir currently we understand the EBITDA margins are higher because of certain lucrative jobs which are going on what would be your indicative margins for FY19 say once the nature of work will be more normal probably in FY19?
- K. Jalandhar Reddy:** Actually sir, these margins are little bit higher because of the old projects which have been completed or nearly completion. So, the final adjustment to us work has to happen in the figures, so that has raised in this year but going forward we expect 13-14% are sustainable. However, on an average it can go up to 15-16% also this coming year.
- Devam Modi:** And sir finally, just one more question basically we understand that KNR was L1 in two of the three KSHIP packages. However, it is I mean we also understand that as far some projects terms our single contractor may not get more than one package. So, on that the current situation and in that case what is the package that we will be winning and what will be size and length of the same?
- K. Jalandhar Reddy:** Yes, 164 kilometers which we are going to win that is the Rs. 1,167 crores which we are quoted. So, that only we are getting awarded. The second one which is about Rs. 937 crores it is getting awarded to somebody else. They have a bid clause telling that we shall have around Rs. 2,000 crores, 5 years average turnout would be Rs. 2,000 crores to get 2 jobs. So, we are eligible getting only one because of the turnover constraint.
- Moderator:** Thank you sir. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, now what is our Revenue guidance for FY18 and FY19?
- K. Jalandhar Reddy:** Sir, we can expect around 15% growth in this FY19.

Shravan Shah: And FY18, sir?

K. Jalandhar Reddy: FY18, I think we are achieving Rs. 1,800 crores plus .

Shravan Shah: And in 9 month how much CAPEX sir we have done in for FY18 and FY19 CAPEX?

K. Venkatram Rao: For 9 months we have added around Rs. 177 crores in the CAPEX. For this quarter we added almost Rs. 90 crores in the CAPEX.

Shravan Shah: So, Rs. 177 crores plus 90 crores?

K. Venkatram Rao: No, Rs. 90 crores is included. For 9 months it is Rs. 177 crores, for this quarter it is Rs. 90 crores.

Shravan Shah: And this fourth quarter would be how much?

K. Venkatram Rao: It will go up to around Rs. 210-220 crores.

Shravan Shah: And next year, sir?

K. Venkatram Rao: Next year it will be normalizing around Rs. 130-140 crores.

Shravan Shah: And sir tax rate for this year and next year?

K. Venkatram Rao: This year will be around 10%, sir and next year it will go up to 15%.

Shravan Shah: And sir, can I get some numbers on the order book Arcot Villupuram what is the unexecuted order book, Chittagong Bangladesh order and then Rasipuram, Kanchipuram this 3-4 projects?

K. Venkatram Rao: For Villupuram it is Rs. 108 crores, for Kanchipuram it is Rs. 31 crores, sir. For Rasipuram it is Rs. 41 crores, sir. Next one you asked Bangladesh sir, it is around Rs. 222 crores.

Shravan Shah: So, is there any change in scope there because last time it was Rs. 200 crores?

K. Venkatram Rao: Which one?

Shravan Shah: Bangladesh it was Rs. 200 crores...

K. Venkatram Rao: It is the same only. Last time it was same figure.

Shravan Shah: So, now we expect the execution to start on this project or...

K. Venkatram Rao: Now almost 30% work is completed in this project and there is some change of scope work is also going on. So, it may go up to Rs. 800 crores actually total project value. But now it is picking up actually.

- Shravan Shah:** No, so initially it was Rs. 250 crores-260 crores, so you are saying ...
- K. Venkatram Rao:** That is our portion actually, initially it was Rs. 525 crores our portion was Rs. 250 crores. Now Rs. 525 crores will go to around Rs. 800 crores.
- Shravan Shah:** So, our portion will go up to?
- K. Venkatram Rao:** Rs. 400 crores.
- Shravan Shah:** So, another additional Rs. 180 crores would be added?
- K. Venkatram Rao:** Added, yes correct.
- Moderator:** Thank you. We have a next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead
- Vibhor Singhal:** Sir, you mentioned the Bangladesh order initially was around Rs. 525 crores and the scope might increase to around Rs. 800 crores?
- K. Venkatram Rao:** Yes.
- Vibhor Singhal:** And sir what is the time frame that you looking for the completion of this project?
- K. Jalandhar Reddy:** 1.5 years, sir.
- Vibhor Singhal:** 1.5 years from here?
- K. JalandharReddy:** Yes.
- Vibhor Singhal:** And just a small clarification, on the KSHIP project you mentioned the project that we might get is the project for 164 kilo meters of Rs. 1,164 crores, right?
- K. Jalandhar Reddy:** Yes.
- Vibhor Singhal:** Sir, the other question was on the kind of outlook that we have in terms of the segments. So, I know we have a very huge pipeline from NHAI in terms of Bharatmala over the next couple of months and also next year as well. Irrigation also, so but I mean apart from the road segment is there any other big opportunities that we are kind of targeting for order inflow may be in irrigation or may be looking at some other domains?
- K. Jalandhar Reddy:** Yes sir, maybe we are also looking one project out of irrigation. Sir, one of our irrigation project is getting to complete by April to June, by June we will be completing one project. We would be dealing one more project. So, we are expecting also there have been certain projects in the state government's pipeline, also eager in bidding them.

- Vibhor Singhal:** So, apart from that we will stick to the road segment only?
- K. Jalandhar Reddy:** Yes now roads are actually enough orders are coming. Right now the market is geared up and there is lot of rational bidding is happening. However, we are trying to participate but may be hopefully in the month of March and April we will be able increase the order size, so that is possible.
- Vibhor Singhal:** So, last booking question can I get the toll collection number for the 2 projects in this quarter, what was the kind of daily toll collection that we did?
- S. Vaikuntanathan:** Sir, Walayar project as on date average we are getting around Rs. 13.5 lakhs per day and then this Barauni-Muzaffarpur, Rs. 14 lakhs per day. 13.5 lakh . And total for 9 months for Walayar it is Rs. 37 crores, and for Bihar projects for 9 months it is Rs. 31 crores.
- Vibhor Singhal:** Sir, now that we have 100% COD for Walayar, so this Rs. 14 lakhs per day is the kind of toll collection that we expect or we expect that it might increase a bit as well?
- S. Vaikuntanathan:** It is expected to increase.
- Moderator:** Thank you sir. We have a next question from the line of Amber Singhanian from AMSEC. Please go ahead.
- Amber Singhanian:** Just clarification in your current order book of Rs. 3,300 crores and this Bangladesh project is included in that or not?
- K. Venkatram Rao:** It is included actually.
- Amber Singhanian:** So, entire 800 crores we have added in this or just ...
- K. Venkatram Rao:** No, it is only Rs. 222 crores we has been added.
- Amber Singhanian:** Remaining Rs. 550 crores will ...
- K. Vankatram Rao:** No, actually out of Rs. 800 crores our stake is 51%, so you will get Rs. 400 crore only. But right now we have not increased because the change of scope is we are expecting in sometime, once we receive the letter from the authority then we will increase.
- Amber Singhanian:** Another Rs. 180 crores will get added in this?
- K. Vankatram Rao:** Yes, correct.
- Amber Singhanian:** You had mention that one project you guys are already qualified with one more person and you will be getting part of that road project?

- K. Vankatram Rao:** For the KSHIP project we bid alone and we have got L1 in the 2 project. But as per the condition of the bid we can get maximum one project.
- Amber Singhania:** So, that is Rs. 1167 crores?
- K. Vankatram Rao:** Yes, Rs. 1,167 crores,
- Amber Singhania:** You are already L1 in that?
- K. Vankatram Rao:** Yes, we are L1. We are L1 in the two, but we will get one only.
- Amber Singhania:** And by when we can expect this to be featured in the order book and execution will start?
- K. Vankatram Rao:** Might be by end of this month.
- Amber Singhania:** What is the name of the project sir, I missed that?
- K. Vankatram Rao:** That is Magadi to Somwar Peth.
- Amber Singhania:** Just if you can give me the order inflow number so far in 9 month?
- K. Vankatram Rao:** For 9 month it is around Rs. 500 crores.
- Moderator:** Thank you, sir. We have a next question from the line of Alok Deora from IIFL. Please go ahead.
- Alok Deora:** Just couple of questions, if we look at the order inflow in the third quarter and even in the 9 months, so they have been actually quite muted especially from the road segment. So, while we understand that the industry order flow has been weak but still some of the players have got couple of orders here and there. So, any particular reason are we like very much sticking to our profitability and then bidding which is why we are losing on some of the orders, if you can just throw some light on that? Because one year back we had slightly more order book than what we currently have. So, just some light if you can throw on the order book part?
- K. Jalandhar Reddy:** Yes sir, we were also trying in the year beginning to bid. From April to this December there has been very less tenders in from NHAI. So, due to that actually not happened and right now the market is in a very aggressive state because there was a gap of 6 months.. So, the market is little bit positive. However, we are trying our path to enter in few projects. So, hopefully 2-3 months we will get enough size projects. That is what we are trying and yes of course there may be some successful bidding in HAM. So, we are also taken up two HAMs projects. So, that is okay with us.
- Alok Deora:** And sir if you can throw how is the state project outlook at the state level? Is it also like how we are seeing with NHAI where the awarding has been slow but some of the market participants

so indicating that state Govt is actually coming out with lot of projects across India? So, if you can just throw some light on that?

K. Jalandhar Reddy: Two projects, actually the one which we were talking in the discussion is about that Magadi to Somwar Peth that is a state government project funded by ADB Bank. So, we also eagerly looking for state government projects also, sir.

Alok Deora: So, that would be completely EPC, is that correct?

K. Jalandhar Reddy: Actually it is a 75-25 HAM that project. So 75 are funded by state government through Asian Development bank and rest the things we will have to be done by the debt equity.

Alok Deora: So, our equity portion would be roughly around some 5% to 7% of the total project?

K. Jalandhar Reddy: Actually that is around you can expect some 10% which is about Rs. 20 crores. But there is mostly we have to discuss with really with the banks because we have not gone through a situation where in 75-25 combination of HAM is there. So, it is a very new subject. Fairly 12% now taking on the first 60-40 by the banks for equity. So, may be this one could be around 5% to 6% may be the equity.

Moderator: Thank you. We have next question from the line of Parvez Akhtar from Edelweiss. Please go ahead.

Parvez Akhtar: Sir, just one question. On the order intake side while a lot of question have been asked but what is or let us say broad outlook in terms of winning HAM projects in EPC projects and how do we see the competitive intensity for these two different modes?

K. Jalandhar Reddy: In coming these two months there is about 30 to 40 tenders which are getting awarded maybe. So, once these things are awarded market appetite little bit get loosened up and there should be some sensible bidding for the upcoming rally. So, that is what I am expecting. I earlier mentioned about that 6 months gap in NHAI tendering also. So, due to that the saturation is happening and second areas where people are not going to bid or very less number of bidders are coming over there. We are also focusing those areas, so hopefully it is no problem that the game planning set for getting around Rs. 2,500 crores worth of contracts in coming 2-3 months down the line.

Parvez Akhtar: And what would be our gross debt in cash at the standalone level?

K. Venkatram Rao: Gross debt is Rs. 228 crores. It includes Rs. 212 crores of the promoter.

Parvez Akhtar: And what would be cash levels?

K. Venkatram Rao: Cash level is around Rs. 26 crores, sir.

Moderator: Thank you sir. We have next question from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir, with such a strong order pipeline in the road space which is, which NHAI in some of the states are going to do if you can help us understand what is the kind of peak execution which we can do and what could be the limiting factors and how fast we can ramp up our capability to increase the topline in case our order inflow surprise us more than what we are expecting?

K. Jalandhar Reddy: Yes sir. Actually what is happening here this Bharatmala is a program for at least coming 4-5 years. Order inflow initially is more but depends on what sort of governments are coming on the next year. So, taking projects I can take as many number of projects I can do it but the thing is that how much we are capable to fund properly. Second question is that CAPEX, so with the available CAPEX actually the CAPEX is now gone more than Rs. 600 crores. So, I think we have reached on certain stage where with this existing equipment only we shall be able to manage with the 5% to 10% addition or deletion that is what sort of a thing. So, going forward, now after the election you never know whether the Bharatmala is going to be continued or it is going to be little bit delay because it depends on the upcoming government who are going to come up. Secondly, sir actually it is mostly we are depending on the political scenarios on most of the order inflows. So that also we were little bit taking a constraint and going ahead in growing our equipment's as well the number of projects also. So, definitely we would like to grow more but I really promise to grow at 15% to 20% pace going forward sir. Our order inflow that is required we are ready to take up those bids.

Charanjit Singh: And sir while we have some kind of understanding on how the competitive intensity could on the NHAI side but on the state road way projects how do you see the competitive intensity and like are they more competitive versus NHAI what is the kind of margin profile do you see on the state road projects versus NHAI?

K. Jalandhar Reddy: NHAI is coming out bids completely with the most of them in HAM. When cash contracts are also coming but now-a-days in a very small scale they are coming out at least you can say around 30% EPC projects are coming in and more than 70% HAM projects are coming us. So, just to ease out the funding issues they are taking up in this fashion. So, that incase of equity constraint allow others to bid in EPC.

Charanjit Singh: Sir, I am just trying to understand the competitive intensity at the state level projects, the number of bidders and how is the L1, L2 differential?

K. Jalandhar Reddy: Sir actually, state government projects are coming in very small in numbers and there competitive intensity for the highest scale jobst is less, really for the small scale projects they are very crowded. So, really today the focus on NHAI is better rather than focusing on state governments. State governments, may be okay if you get a project and we should not delay to take it but if you really focus and sit over state government projects and leave out the national highway projects you may not get this big business.

- Moderator:** Thank you. We have a next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Sir, if we are saying that we are going to amortize the irrigation machinery till the projects are over, if I am not wrong one of your project gets over by March 2019. So, if your machinery gets freed up let us say by June in one of the projects. Sir, I am just trying to understand on a quarterly basis is it Rs. 37 crores or Rs. 36 crores kind of depreciation we should be assuming in or is it like a bump up of the 3 years have been taken over the last 2-3 quarters if you look at our bumping up has been happening over the last 2-3 quarters. So, just wanted to understand is it like the May quarter the next two quarters we will see a Rs. 37 crores or is it like normalize now?
- K. Venkatram Rao:** In the next quarter it will be in the same range only. But most probably because almost we have added Rs. 90 crores assets in this quarter and out of this mostly Rs. 75 crores in our new project and this new project will be there till next year end. So, it will be in the same range actually till next year end.
- Nitin Arora:** So, you saying Rs. 3,700 crores spread over 5 quarters?
- K. Venkatram Rao:** Yes, around 5 quarters.
- Nitin Arora:** Till your other bigger project of the Rs. 900 crores get executed by March?
- K. Venkatram Rao:** Executed, yes.
- Nitin Arora:** And until and unless we gets one more that anyway which is the same machine you will get?
- K. Venkatram Rao:** Same machinery we can use it.
- K. Jalandhar Reddy:** Actually sir, what is happening here the irrigation projects most of the projects turnover is happened due to the equipment bank and these equipments are run at least 18 hours a day. So, you take out after completing one project and how many really you can take to the other projects that is a big question also because life is totally squeezed here.
- Nitin Arora:** So, is it like the Kaleshwaram project?
- K. Venkatram Roa:** Yes, correct.
- Nitin Arora:** I think sir, the total bids are not out yet right there were only 2-3 bids which were called for there are more to come.
- K. Jalandhar Reddy:** Yes there are more to come.
- Nitin Arora:** Right, so that each package if you take another because you were in a JV with the company of your region only.

- K. Jalandhar Reddy:** Yes.
- Nitin Arora:** In the future also we will be taking that project in JV if the bids come in?
- K. Jalandhar Reddy:** Actually by March we are able to get 90% certificate, once we get that certificate comes then we don't need JV.
- Nitin Arora:** So, you can take a project size up to Rs. 700 crores to Rs. 900 crores in irrigation then?
- K. Jalandhar Reddy:** Irrigation we can take our self.
- Moderator:** Thank you sir. We have a next question from the line of Abigail Fernandes from Crisil Limited. Please go ahead.
- Abigail Fernandes:** I just have a one question. So, how many projects are you all at the L1 stage?
- K. Jalandhar Reddy:** Only one madam that Magadi to Somwar Peth we are standing L1.
- Abigail Fernandes:** Do you all expect any others in the newer, I mean before the end of FY18?
- K. Jalandhar Reddy:** Hopefully we are expecting to happen but really it is difficult to say that what is going to happen because the NHAI tendering really once they open up the tenders then only we will know the results otherwise I have no clues.
- Moderator:** Thank you. We have a next question from the line of Rita Tahilramani from SBICAP Securities. Please go ahead.
- Rita Tahilramani:** Sir, I wanted to know the land acquisition status on the Pollachi project and how much revenue have we booked in from this project in 9-month 2018?
- K. Jalandhar Reddy:** Actually around 55% of the land has been done and the land problem is due to the toll plaza area and they have not handed over so around 20% to 25% of the project size of the land need to be acquired right now.
- Rita Tahilramani:** Sir, the Konda Pochamma Sagar irrigation project how much is the revenue booked in for this particular project in 9-month 2018?
- K. Jalandhar Reddy:** Actually Konda Pochamma, this last quarter we have booked around Rs 9 crores only and by March it will be Rs. 70 crores-80 crores.
- Rita Tahilramani:** And how much is the pending claim on the Muzaffarpur project now?
- S. Vaikuntanathan:** It is being prepared, claim is being prepared on Muzaffarpur Barauni. It is being prepared.
- K. JalandharReddy:** It will take some more time to tell you out.

- Rita Tahilramani:** Sir and how much is the subcontracting as a percentage of our order book currently?
- S. Vaikuntanathan:** Now it has come down to only around 18%.
- Rita Tahilramani:** And last question from my side what is the status of the refinancing on the Walayar project?
- S. Vaikuntanathan:** See, now the existing bankers are themselves they have come forward so reduce the interest rate. In fact the lead bank and other 3 banks have already sanctioned 8.5%. So, we intend to go with them.
- Moderator:** Thank you sir. We have a next question from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.
- Faisal Hawa:** The sequential growth in revenue quarter-on-quarter is really heartening to see, I have a question more in the strategy point. Would it make sense for us to really bid a little low for one or two larger projects and secure our order book for the next one or two years
- K. Jalandhar Reddy:** I am also of the same opinion.
- Faisal Hawa:** Once the year is over you feel on 1st April so provided we do not win any new orders, you feel that any such orders are there which are not executable due to government issues or land delivery issue or some other issues, that is one. Second is there was a 1,500 crores HAM order that we were going to win in Kerala and there were only some 3 bidders or something. So, where do we stand on that have we opened the tender for that or it still to be opened?
- K. Jalandhar Reddy:** Yes it is opened and the KMC is the winner there.
- Faisal Hawa:** PNC?
- K. Jalandhar Reddy:** KMC.
- Faisal Hawa:** Ok this Andhra based?
- K. Jalandhar Reddy:** Yes Andhra based KMC is the ...
- Faisal Hawa:** So, we have lost that order?
- K. Jalandhar Reddy:** Yes, last at Rs. 13 crores difference.
- Faisal Hawa:** Just Rs. 13 crores?
- K. Jalandhar Reddy:** Yes, the working was very close.

Faisal Hawa: And another question is that within the family are our issues of who takes over the leadership or who is what I mean to say is that the promoter holding and are goes really addressed between the family going forward like say 3 years, 4 years, 5 years down the line? See, ownership that you feel that there could be any change?

That been the management like says 5 years down the line or 10 years down the line?

K. Jalandhar Reddy: May be 10 years down the line I may not be able to tell you right now what will be the situation but 4-5 years in the line there is no big change that can happen but we are getting up the new, second management line, so that well the main promoters are well assisted and the many issues are taken care of our approval.

Faisal Hawa: My pointed question is that I hope there is no difference of opinion between brothers or brother-in-law this thing between so far Mr. KN Reddy has been like the great captain as the pioneer and even though legendary leader. So I hope there are no issues between the next families?

K. Jalandhar Reddy: No issues there are no issues.

Moderator: Thank you sir. We have next question from the line of Niteen Dharmawat from And Enterprises. Please go ahead.

Niteen Dharmawat: Just wanted to know sir what is the consolidated debt number that we are having?

S. Vaikuntanathan: So, the consolidated debt is Rs. 753 crores.

Niteen Dharmawat: It has gone up slightly from 650 crores last quarter, right?

S. Vaikuntanathan: Yes, because the promoter funding of the KNR has gone up as unsecured loan that is why they have gone up, at SPV level and all that has not gone up.

Niteen Dharmawat: One more thing sir, since we have very high governance practices if it is possible to prevent the consolidate number instead of standalone number on a quarter-on-quarter basis. You may like to consider that as well.

S. Vaikuntanathan: I think see now there was an option where we have given the option for standalone basis. So, that is being continued.

Niteen Dharmawat: Because if consolidated numbers ...

S. Vaikuntanathan: Anyhow at the time of closing we will get the consolidated balance sheet also.

Niteen Dharmawat: Yes, that is actually we had to wait for a year, so that is why I was saying that if you can consider this ...

- S. Vaikuntanathan:** Individually also ask, no problem. You can send e-mail to us we can reply that.
- Moderator:** Thank you, sir. We have next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** So, our two projects, toll project sale has been suspended with Patel Joint venture, so are you planned to again sell it?
- S. Vaikuntanathan:** See, now we are planning to expedite that the arbitrations is going in a faster manner, so we are trying to expedite that. Till such time the clients and other things are received, we may try to hold it on for some more time.
- Ravi Naredi:** So, 2-3 months more we extend it?
- S. Vaikuntanathan:** The process has started and is going fast, and we may we do not want to do any change. So, will hold on for some more time.
- Ravi Naredi:** And how much topline factors we are hoping for 2018-2019, sir?
- S. Vaikuntanathan:** Topline, because I think our ED has committed around 15% to 18% increases the top line. So, now this year we have given a guidance for about Rs. 1,800 crores plus 15% to 18% will be topline growth for FY19.
- Ravi Naredi:** How much sir, for next year?
- S. Vaikuntanathan:** If we add that it is approximately around Rs. 2,000 crores to Rs. 2,100 crores.
- Moderator:** Thank you sir. We have next question from the line of Sourabh Jain, Individual Investor. Please go ahead.
- Sourabh Jain:** Sir, your presentation mentions that you are also looking at some metro and railway projects, so can you give us some developments in that area?
- K. Jalandhar Reddy:** Metro terminal, actually there are in future we are considering for bidding sir, but if we get sufficient orders from highway we get those.
- Sourabh Jain:** So, as of now there is nothing as in at advance stage in that area?
- K. Jalandhar Reddy:** Yes, sir.
- Sourabh Jain:** Sir, second and last question can you throw some light on challenges that you foresee in business and say immediate and mid-term, medium term?
- K. Jalandhar Reddy:** Challenges really would be the cement, steel prices because you would have seen last 3 months there has been steep price in the steel and cement. Going forward how they would be that is only

major constraint because in any of the EPC projects also the cement and steel is not properly covered in the escalations.

Sourabh Jain: So, when you say not properly covered do you mean that there is no pass through or there is some pass through but which may not be sufficient?

K. Jalandhar Reddy: Yes, but that is not sufficient.

Sourabh Jain: Any other challenges sir, in terms of say you have already covered ...

K. Jalandhar Reddy: Yes sir. I would like to mention one more that, see looking at our network and all that it is very difficult for us to take more than two annuity jobs. So, we may further depend on few projects on EPC model only. EPC models inflow is coming down then we may have to try some private contract that means I may have to go to some concessionaire, a collective concessionaire and take EPC projects from them. So that is the kind of change. It may come, it may not come I am really not sure about it but as you all I am trying to mention it.

Moderator: Thank you sir. We have next question from the line of Priyankar Biswas from Nomura Securities. Please go ahead.

Priyankar Biswas: Sir just one question. So the revenue number that you have, so it is net of GST, right?

K. Jalandhar Reddy: Yes sir.

Priyankar Biswas: But 3Q last year number that would include these taxes and so on, so the growth number may not be comparable. So, what should be the underlying growth?

S. Vaikuntanathan: We said around 18%.

Priyankar Biswas: 18% underlying?

S. Vaikuntanathan: Yes.

Moderator: Thank you. We have last question from the line of Bharath Sheth from Quest Investment. Please go ahead.

Bharath Sheth: Can you elaborate little more on the opportunity on irrigation side and how much as you said that current order book whatever is continue will continue till say first quarter of the FY19, correct. But what is the how much bid that we have done for irrigation what is the opportunity that we look for?

K. Jalandhar Reddy: Opportunities in irrigation are really to come from state government only sir, first thing. Second thing in the Telangana we are expecting another Rs. 15,000-20,000 crores worth of jobs to be awarded.

- Bharath Sheth:** In what time frame?
- K. Jalandhar Reddy:** Actually they need to come up by March and April.
- Bharath Sheth:** This is from Telangana or which state?
- K. Jalandhar Reddy:** This is Telangana, sir. There are some more projects which are needed to be announced by Andhra Pradesh also. We are expecting those and in the state of Maharashtra also there are bids likely to come up really waiting actually.
- Bharath Sheth:** Again their timeline will be what timeline is, see currently we are doing say within 18 months timeline. So, it will be a time bound kind of a project?
- K. Jalandhar Reddy:** Yes, all time bound only they come up but may be little bit time more or less. Actually, the timelines are fixed not on the technical basis they are being fixed on the political targets. Really, they want to show some results in the thing actually even the 18 months target they have given they were targeting some elections in the next year. So, by the time they want a complete maximum projects so that they can shows some water there and win the election. So, kind of that everybody is behind that sort of situation.
- Bharath Sheth:** And what I understand is as a standalone we can bid up to around Rs. 900 crores kind of a project, correct?
- K. Jalandhar Reddy:** We will try the biddings, sir. Actually we bid at a certificate for around Rs. 600 crores in the March end.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir.
- S. Vaikuntanathan:** Thank you everyone for your participation in our Earnings Call. We have uploaded the presentation on our company's website. In case of further queries, you may get in touch with Strategic Growth Advisors, our Investor Relations Advisor and feel free to get in touch with us. Thank you very much.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of KNR Constructions Limited that concludes this conference call. Thanks for joining us. You may now disconnect your lines.