



KNR Constructions Limited.

Date: 29th November 2017

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BSE Limited
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Sir,

Sub: - Transcript of the Conference Call for Q2 & H1 FY 18

Ref: - Listing Regulations
BSE Code: 532942, NSE Symbol: KNRCON

With reference to the above please find attached transcript of Conference Call for the Q2 FY & H1 FY 18 conducted on Wednesday the 15th November 2017 at 3:00 PM IST, this for your information and records.

Yours truly,
for KNR Constructions Limited

M.V. Venkata Rao

M. V. VENKATA RAO
Company Secretary





“KNR Constructions Limited Q2 FY18 Earnings
Conference Call”

November 15, 2017



**MANAGEMENT: MR. K. JALANDHAR REDDY – EXECUTIVE DIRECTOR,
KNR CONSTRUCTIONS
MR. S. VAIKUNTANATHAN – VICE PRESIDENT
(FINANCE), KNR CONSTRUCTIONS
MR. K. VENKATRAM RAO – GENERAL MANAGER
(FINANCE & ACCOUNTS), KNR CONSTRUCTIONS**

Moderator: Ladies and gentlemen, good day and welcome to the KNR Constructions Limited Q2 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk 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, please signal an operator by entering ‘*’ then ‘0’ on your touchtone telephone. Please note that 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 half year ended 30th September 2017. Along with me, I have Mr. K. Jalandhar Reddy – Executive Director; Mr. K. Venkatram Rao – General Manager (Finance & Accounts) and Strategic Growth Advisors, our Investor Relation Advisors.

I will start by giving you a brief on current scenario for roads and highway sector. Then, I will give an update on the company's performance. Recently, NHAI has revised the highway award target to 10,000 kilometers for the financial year 2017-18. NHAI had previously set an award target of 6,500 km for financial year '18 while its highway construction target was 3,500 kilometers for the same period. It has now decided to tender higher number of projects by December 2017. As of now, tenders were out for 4,500 kilometers. They will invite tenders for another 6000 km by the end of December 2017.

The government is taking constant efforts to provide more efficient transportation for which they have significantly stepped up the highway development and road building program. The road building program involves construction of 83,677 kilometers of roads with a CAPEX of 6.92 lakh crores over next 5 years. Out of this, Bharatmala Pariyojana to be implemented with an outlay of Rs. 5.35 lakh crores which involve construction of 34,800 kilometers of road.

The Bharatmala project will be taken up by the Ministry in two phases of 24,800 kilometers and 30,600 kilometers each. They are targeting to start the first phase of Bharatmala before the end of 2018.

The various category of road projects which are to be developed under Bharatmala Pariyojana are as follows: Economic Corridors of 9,000 kilometers, Inter-corridor & feeder route of 6,000 kilometers, National corridors efficiency improvement of 5,000 kilometers, Border roads of international connectivity of 2,000 kilometers, Coastal roads and port connectivity of 2,000 kilometers, Greenfield expressways of 800 kilometers, balance NHDP work of 10,000 kilometers.

Bharatmala works have been proposed for completion in 5 years by 2021-22 through NHAI, NHIDCL, MoRTH and State PWD.

The Bharatmala Pariyojana will be funded with the debt from the market to the tune of Rs. 2.09 lakh crores, private sector is expected to contribute Rs. 1.06 lakh crores and balance Rs. 2.19 lakh crores through central road fund (CRF), ToT modernization proceeds and ongoing toll connections of NHAI.

In addition to 34,800 kilometers under Bharatmala, balance work of 48,877 kilometers, under other current scheme will be implemented in parallel by NHAI and MoRTH with an outlay of Rs. 1.57 lakh crores.

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. 13.33 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 Rs. 13.49 lakhs per day based on 100% PCOD. In this project, we hold 51% equity stake and have invested Rs. 69 crores. The total collection has been improving on a consistent basis.

Order book details: Our order book as on 30th September 2017 is Rs. 3,587.20 crores consisting of road 76% and irrigation 24% which is mainly from NHAI which is 48%, state projects are 44% and balance 8% from other parties and an international order. During the quarter, we have received an order of irrigation project in Telangana state to the tune of Rs. 884.47 crores and the share of KNR is Rs. 451.08 crores that is 51%.

To improve our execution outlook further we continue to bid for projects and expect to win projects worth Rs. 2,000 to 2,500 crores in next 6 months. Now, I request Mr. K. Venkatram Rao, our GM to present results for the quarter and half year ended 30th September 2017. Over to Mr. Venkatram Rao.

Venkatram Rao:

Good afternoon. I believe you must have had an opportunity to see our results and the presentation that has been circulated and uploaded on our website. I would now present the results for the quarter ended September 30th 2017. The total revenue on standalone basis is Rs. 393 crores in Q2 FY18 as against Rs. 373 crores during the same period in the last financial year, a growth of 5%. Our standalone EBITDA for Q2 FY18 has grown by 47% to Rs. 82 crores with a margin of 21%. The growth in EBITDA is higher as few of the projects are nearing completion stage.

The standalone profit before tax grew by approximately 17% to Rs. 57 crores in Q2 FY18 as compared to Rs. 49 crores in Q2 FY17. The standalone profit after tax for Q2 FY18 is Rs. 59 crores with a margin of 15%.

Moving to the results for the half year ended September 30th 2017. Total revenue on standalone basis is Rs. 874 crores in H1 FY18 at against Rs. 676 crores during the same period in the last financial year, a growth of around 29%. Total revenue for H1 includes Rs. 16.8 crores from the gains received by the two joint ventures company that is Patel-KNR JV and KNR-Patel JV. Our standalone EBITDA for H1 FY18 has been at Rs. 167 crores with a margin of around 19%. Standalone profit before tax grew by approximately 54% to Rs. 124 crores in H1 FY18 as compared to Rs. 81 crores in H1 FY17.

Now I will discuss a few numbers of the balance sheet. As on 30th September 2017, the net debt on the standalone basis is around Rs. 146 crores that includes promoter loan of Rs. 122 crores and the net working capital is 41 days. With this, we now open the floor for question and answers.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Prakishit Kandpal from HDFC Securities. Please go ahead.
- Prakishit Kandpal:** Sir, this Muzaffarpur project has now achieved 100% completion, so the toll collection should have increased to around Rs. 17 lakhs per day that was the expectation. So we are still clocking 13.5, so any reason?
- K. Jalandhar Reddy:** Muzaffarpur, I think it is roughly Rs. 13.5 lakhs per day.
- K. Venkatram Rao:** Actually, the average is Rs. 13.5 lakhs per day, but due to demonetization it was low and due to Diwali and Chath Puja, it is a big festival in Bihar. So that is why average collection is around Rs. 13.5 lakhs per day, but if we see in the last 15 to 20 days, we are getting around Rs. 16 to Rs. 16.5 lakhs per day as average toll collection.
- Prakishit Kandpal:** Because I assume that PCOD would happen at 75%, now it is 100%. Should have been an increase automatically on account of the entire length now coming into tolling?
- K. Venkatram Rao:** Yeah, our 100% toll collection has started from 1st of October. So after that due to demonetization and Diwali it was less. We are telling the average is Rs. 13.5 Lakhs per day, but if we see last 15 days, average comes to around Rs. 16.5 lakhs per day. **Prakishit Kandpal:** So 16.5, it is now reached?
- S. Vaikuntanathan:** Yeah.

- Prakishit Kandpal:** And sir on the EPC side of the business, so we got Rs. 450 crores order in the irrigation and then not has been much bidding on the road segment, but just wanted to understand that within AP, your competitors have got some big projects, 2000 crores won by NCC, so have we bid for those projects? And also if you can update on the K-Ship where you have submitted the bid?
- K. Jalandhar Reddy:** K-Ship, the technical bid is being sent to the bank which is ADB funded projects, so they gone to ADB for approval. I think we are expecting another 1 to 2 months that award to get done and AP concerned in the near future, we are likely to get some projects in AP also.
- Prakishit Kandpal:** But we are bidding for the road projects in AP, this state project which was awarded?
- K. Jalandhar Reddy:** Now we will bid actually, last time we did not bid. This time, we are taking charge.
- Prakishit Kandpal:** Sir earlier on irrigation, we are little bit cautious because we are approaching elections now. You said that probably will focus on completing the existing irrigation projects and there could be issues around payments coming when we are in elections. So we have again won orders, so if you can just highlight how has been the collections, the existing irrigation projects and why again you are turning positive on this segment?
- K. Jalandhar Reddy:** Actually, the irrigation project is concerned; there has been a 2-3 months delay on one project, that earlier old project which is there in Mahabubnagar, Palamuru district that has some delay in payment. The new one which is tied up for the bank, it is a bank loan as we taken for the dam construction. So that will get paid as and when we get the payment that is not a problem. So, that we have considered and then went ahead. That project is tied up with some loan with the bank. So soon we submit the bill, another 6-7 days we are likely to get the balance payment.
- Prakishit Kandpal:** Now coming on to the revenue for this year, so we are still maintaining that 1,700-1,800 crores of topline?
- K. Jalandhar Reddy:** Yeah.
- Prakishit Kandpal:** You are looking to increase it further or will be retained in same guidance?
- K. Jalandhar Reddy:** It will be same because last entire quarter we had rains in Tamil Nadu, Kerala and all. So, most of our projects are in Tamil Nadu, Kerala. So there is little bit dip in the turnover, but I think in the final quarter will be performing the best. So hopefully, we will achieve this.
- Prakishit Kandpal:** And the margins have risen sharply, it is now averaging around 19%. So typically your guidance has been 13%-14%, so how do we look at it now?
- K. Jalandhar Reddy:** Sir actually, this year it is continuing with the same set of numbers, but however, this quarter we did not have much execution from Hubli-Hospet project. Hospet, the EBITDA is not as

good as these projects. So maybe slightly some sort of correction would come on the final numbers because we expect some good execution 5-6 months in Hubli also. So on an average, plus or minus 2% we can consider to go ahead with this year.

- Prakishit Kandpal:** 16%-17%. Next year also will maintain the same level or it will come down?
- K. Jalandhar Reddy:** Next year actually it depends on the new orders that are coming up, otherwise this guidance will continue.
- Prakishit Kandpal:** 16% plus we can also expect for next year?
- K. Jalandhar Reddy:** We are expecting some good orders to come in because lots of projects are getting into bidding. Due to GST confusion and other issues, bidding could not happen for the past 4-5 months. So hopefully, all the bids would happen from next month onwards. So I think going forward we will have good orders also in hand. So, Situation is now favorable.
- Prakishit Kandpal:** Rs. 2000-3000 crores is what we can target now going forward in terms of new order inflows?
- K. Jalandhar Reddy:** Yes.
- Prakishit Kandpal:** And just lastly sir on this the money which is blocked into Kerala equity of almost like Rs. 470 odd crores. So what is your view on that. Now since the project like has been completed and tolling is now improving. So how do you look at taking or monetizing these projects?
- K. Jalandhar Reddy:** Actually, we have already given the mandate to someone to doing there have been some augmentation issues which are coming in. We are now sorting clarifications from NHAI. So I think after 2-3 months, we get some clarity on that.
- S. Vaikuntanathan:** The bank has also agreed to reduce the interest rate substantially to 8.75%. This will give us adequate savings of around Rs.10-11 crores per annum. There would not be any financial problem on this project because the repayment and also the maintenance can be taken care of out of the revenue.
- Prakishit Kandpal:** So you are talking about Kerala project?
- S. Vaikuntanathan:** In Muzaffarpur also, the bank has now agreed to reduce.
- Prakishit Kandpal:** Both projects, 8.75% will be achieved?
- S. Vaikuntanathan:** Walayar, 8.5% and Muzaffarpur, they have agreed to do reduction of interest rate at 8.75%.
- Prakishit Kandpal:** So Kerala is 8.5%?
- S. Vaikuntanathan:** Yes.

- Moderator:** Thank you. We have the next question from the line of Prabhat A from B&K Securities. Please go ahead.
- Prabhat A:** So just wanted to understand on the execution front, even if I look across the sector, the execution from the competitors has not been very robust as it has been for us and what we have given is the GST implementation issues, if you could throw some light on how sir like for us at KNR, this was not an issue this quarter despite the entire sector facing this implementation of GST?
- K. Jalandhar Reddy:** It is not that we do not have any impact of GST. GST impact is there, but up to December end they have given time to repay that. We have represented all the cases to NHAI and respective crimes for responding and paying it under. So, we are waiting and literally NHAI has already given a circular that they will reimburse the things in certain pattern. So all that pattern has been observed and we have submitted the proceeding. So we are waiting for NHAI to respond to pay back and we shall see that such losses whatever we are making. We could at least get balance on that.
- Prabhat A:** And sir on the vendor suppliers and how the situation looking like?
- K. Jalandhar Reddy:** We are buying all the products with GST.
- Prabhat A:** Just one of the questions, you mentioned pipeline of 2,000-2,500 crores, could you give us a breakup of which projects are these that you are looking at, some of them?
- K. Jalandhar Reddy:** We were looking forward to bid on HAM projects for at least Rs. 1000 to 1500 crores and balance, we are aiming around Rs.1000 crores from EPC front. 50:50 kind of ratio we would like to strike, we have to see how it goes going forward.
- Moderator:** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, I wanted outstanding order book for Arcot Villupuram, Rasipuram and Kanchipuram-Vandavasi?
- K. Venkatram Rao:** For Kanchipuram, it is at Rs. 43 crores. For Arcot, it is Rs. 135 crores and for Rasipuram, it is Rs. 73 crores.
- Shravan Shah:** And Reddy sir last time when we had first quarter con-call, you said like Hubli-Hospet, you have done around Rs. 20 crore kind of an execution, but if I look at this quarter, I think we book only Rs. 13.5 crore kind of a revenue. So is there something which has still we have executed and we have not booked?

- K. Jalandhar Reddy:** Yeah, we have done some execution, but due to 10% clause, we are unable to get some payments. So will be in the following next quarter.
- Shravan Shah:** So roughly around maybe Rs. 40-50 crores we have done work and still not...
- K. Jalandhar Reddy:** No, some Rs. 30-35 crores.
- Shravan Shah:** And sir how do you now guide in terms of the tax rate for full year FY18 and '19?
- K. Jalandhar Reddy:** As such only one project which is Konda Pochamma has the tax pattern. Rest are all exempted under 80-IA. So our target is to do Rs. 100 crores in this project. So that will absorb tax. The rest of the portion will not take up any tax.
- K. Venkatram Rao:** It will not range up because we have MAT tax and credit entailment is there because whatever projects are there, almost all project except one project is for 80IA. So in this year, tax rate might be around 10% and next year onwards, it will increase slowly step by step.
- Moderator:** Thank you. We have the next question from the line of Nitin Dharmavat, an individual investor. Please go ahead.
- Nitin Dharmavat:** Sir regarding irrigation projects, there was some news I read about the GST applicability on such projects. It was around 12% and I was reading that some of the contractors are facing trouble because of that. So just wanted to have your opinion that how it is impacting us and is it also impacting the large contractors like us or are we able to pass on the tax implications to the government?
- K. Jalandhar Reddy:** GST at irrigation, I think state government said it will reimburse, but what sort of reimbursements they are giving, there is no clarity on that really. We are waiting for their response.
- K. Venkatram Rao:** Sir, more of that in just recent GST council meeting, earth work which is more than 75% of the contract wholly in that case, GST is 5% in our both of the projects as earth work is more rather than pipeline and other work. So in our case, there is not much difference because previously also on the VAT regime, we are paying 5%. Now on the GST regime, it is also 5%. So there is not much impact to us actually as far as GST is concerned in the irrigation.
- Nitin Dharmavat:** So did it also impact our working capital sir?
- K. Jalandhar Reddy:** This quarter we are supposed to pay around 18% towards GST. Slowly and steadily it is increasing month by month. So we are definitely waiting for the NHAI's response.
- Nitin Dharmavat:** I wanted to know that how many projects we are in L1 category right now?
- K. Jalandhar Reddy:** , no status.

- Moderator:** Thank you. We have the next question from the line of Sandeep Jabuani from Narnolia Securities. Please go ahead.
- Sandeep Jabuani:** Sir, my question is pertaining to the Thiruvananthapuram project remaining order book. So last quarter, it was Rs. 377 crores and this quarter it is Rs. 448 crores. So what is the reason behind?
- K. Venkatram Rao:** Yes, there have been some changes of scope at Kaveri.
- Sandeep Jabuani:** What amount that?
- K. Venkatram Rao:** It is around 100 crores.
- Sandeep Jabuani:** Rs.100 crores of change of scope, okay. And sir we have to take final decision on Chittagong Bangladesh project or still it is?
- K. Jaladhar Reddy:** Bangladesh, actually there has been rains from past 3-4 months. So there is no much improvement in the progress, but it now picked up. so we are sending our delegates also this time.
- Sandeep Jabuani:** So what is the current unexecuted percentage?
- K. Venkatram Rao:** Around 25% is executed, sir.
- Sandeep Jabuani:** In this quarter?
- K. Venkatram Rao:** No, put together as of date.
- Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** I missed that this question before. The margins in this quarter were at 21%. In the last quarter, we remember we had exceptional gain of around Rs. 16 crores because of which the margins had shot up to 17.5%. So, any specific reason that we had 21% in this quarter, some kind of provision that we wrote back or something like that. And what is the kind of sustainable core EPC margins that you think we can do?
- K. Venkatram Rao:** Actually sir some of the projects like Madurai project which is almost 75% completion and Yedula project which is also around 65%-70% in the completion stage. So once we execute this project, when it is nearing to the completion because now billing pattern is based on milestone. So at that time only we will really know how much the margin in this project. So we have to accordingly revise our margins and some of the unbilled quantity that we will bill. So that is why when project is coming to nearing stage, we really know what is the profitability and accordingly revise the margins. So because this project is nearing completion, so we have

revised the margin in this project. And second one reason is if you see in this quarter, we have subcontracting expenses only 12%. Previously, it was around 30%-35%. In our subcontract project, we will get around 5%-6% margin. Our own execution, we will get generally more, around 15%. So now this quarter due to this subcontracted project, turnover is reduced. So that is why there is a small increase in overall margin in the company level.

Vibhor Singhal: So can I assume that because right now the order book is a little lesser than what it was let us say 3 or 4 quarters back, so limited number of projects. So our subcontracting needs are lesser and that is why the margins are better.

K. Venkatram Rao: It is going to be lesser. Right now, our subcontract is only Rs. 450 crores in order book out of 3,500 crores because further we do not want to give anything on subcontracting. Definitely, margin will be sustainable and because we have revised the margin this quarter, it will be more, otherwise like what our ED sir said in this year, it may be around +2% and thereafter next year we have to see actually how much project, which project is contributing the revenue and accordingly, we will re-evaluate our margins.

Vibhor Singhal: Sure. Sir my next question is actually on GST. I know that this question has been asked multiple times in this call itself. So we have seen that with other players as well that GST has led to let us say a kind of increase in inventory because clients have not been able to authorize the bills and sometimes vendors have also delayed the supply material and all. We faced any of those challenges in our execution of the project or it was completely a very smooth sailing for us?

K. Jaladhar Reddy: Actually during the first month, we had some issues, regulated supply or billing delay and also delivery was delayed and all that, but after one month we did not face any delay problems, but you have to pay GST and take out your product, that is our concern.

Vibhor Singhal: Sorry, did not get your last part sir, you have to...

K. Jalandhar Reddy: We had to pay the GST and take that product, that is all. Supplies were done only after payment of GST.

Vibhor Singhal: So basically in the numbers that we reported, there was no impact of GST on our revenues on margins as well, right, nothing that because we booked revenue net of GST that is why the margins were higher, nothing of that sort?

K. Venkatram Rao: Nothing of that sort, but definitely in the turnover there is reduction. We thought we will do more than that, but due to GST we are not able to achieve that, but still it is coming better than last quarter around 5% growth, but there is definitely impact of turnover. But as far as profitability, no impact.

- Vibhor Singhal:** Actually this is what the idea was we had been conveyed was that there could be a lower reduction because of the 8% incremental impact on the topline, but the profitability will remain the same, so margins might look a bit higher. That is what I think the industry is also looking at.
- K. Jaladhar Reddy:** That concept itself we have taken it under change of law. So can be paid and NHAI has also in their circular, they have clarified that they are going to pay that when they are paying around that is a different story, but we will get back. So that is way the impact of it is we are taking it as almost nil. Actually, we are taking, otherwise it has got a huge impact. 7%-8% of the margins is being impacted. So we have not accounted because the change of law.
- Vibhor Singhal:** And sir what has been our CAPEX till now in this year, what are our plans for total CAPEX this year and next year?
- K. Venkatram Rao:** Actually this quarter, we did around Rs.55 crores of the CAPEX. So last 6 months, we did around Rs. 87 crores of the CAPEX and we expect that it may go up to around Rs. 130 to 140 crores for the entire unit.
- Vibhor Singhal:** Rs. 130 to 140 crores?
- Venkatram Rao:** Yes.
- Vibhor Singhal:** And similar number next year also?
- K. Jaladhar Reddy:** Next year, it depends again on the new project coming, , this Rs. 50-55 crores also, we have incurred due to the new project in the irrigation sector, otherwise that would not have much impact.
- Vibhor Singhal:** So lastly sir just a bookkeeping question. Where do you see the debt levels at the end of this year? Will we be able to maintain the Rs. 140-150 crores of level that we have at this point of time?
- K. Jaladhar Reddy:** I think it is going to continue like that.
- Moderator:** Thank you, Mr. Singhal. We have the next question from the line of Raj Rishi from DCPL. Please go ahead.
- Raj Rishi:** I would like a broad perspective on the government proposals namely Bharatmala and they are talking about river linking. Firstly, would you be contender for grabbing up a piece of river linking also?
- K. Jaladhar Reddy:** Yes, that is why we have built up our arms in the irrigation sector to go in that rivers inter-linking program. we are open.

- Raj Rishi:** As far as I understand sir, river linking would entail largely building of dams and canals, am I right sir?
- K. Jaladhar Reddy:** Yes.
- Raj Rishi:** Do you have the necessary capabilities in both these areas to build dams and canals?
- K. Jaladhar Reddy:** Yes, we have.
- Raj Rishi:** So do you think it can be a major source of revenue?
- K. Jaladhar Reddy:** One of our projects that Yedula Reservoir which we are completing along with the river canal, that is getting completed by this March. So we will have the certificate in hand so that it will enable case for us to bid directly, single-handed bidding can happen also in from our end.
- Raj Rishi:** Do you expect some good bidding in 2018 regards river linking?
- K. Jaladhar Reddy:** Actually, as such there is no big clarity on that. But if there is some clarity, then only we we can speak about it.
- Raj Rishi:** Sir given the size of opportunities mainly Bharatmala is 5 lakh crores, river linking is another 2 lakh crores. Do you expect KNR to be a different size in some years to come, revenue wise, order book wise?
- K. Jaladhar Reddy:** Actually, Bharatmala is again, that is going to start, most of the tenders could happen starting from 6 months-9 months from now. So I think before election, they will award all the projects and go ahead with that. Definitely, we will try to place ourselves to be having more business out of that. Right now, we are now focusing on the bids already placed that are there in Karnataka, Maharashtra, Tamil Nadu, MP. So these bids now we are focusing, there has been partial 2-3 tenders in Tamil Nadu also, Kerala also. So these centers we are now currently focusing, so as and when that Bharatmala could come, definitely we will take part in it. We are more in Bharatmala projects to come on EPC side also not entire EPC, but they will come in HAM and EPC in a combination.
- Raj Rishi:** So you would be more interested in EPC or both? EPC and HAM, both?
- K. Jaladhar Reddy:** Actually sir, 50:50 now. Actually being it around Rs. 2000-3000 crore, so which we would like to go 50:50.
- Raj Rishi:** And sir what debt-to-equity would you be comfortable with in future like what is your comfortable range in which you have as far as category is concerned?

- K. Jaladhar Reddy:** Actually sir, right now you can see Rs. 140 crores debt we have. If at all any good projects that are coming that means we should be very confident enough in getting that sort of margins that is there. We are definitely open to go one time of our equity change.
- Raj Rishi:** And sir, any plans to raise funds as far as equity is concerned given the size of projects we are coming up?
- K. Jaladhar Reddy:** Actually, we are right now geared up one project about Rs. 1000 crores plus project we are ready for ourselves to look in. If at all we have to bid more than 1 or 2 ticket size projects, then we would think of doing this.
- Moderator:** Thank you. We have the next question from the line of Bharanidhar Vijay Kumar from Spark Capital. Please go ahead.
- Bharanidhar Vijay Kumar:** In the irrigation segment, how much was the execution sir this quarter?
- K. Venkatram Rao:** Overall, this quarter we executed Rs. 393 crores.
- Bharanidhar Vijay Kumar:** Only in irrigation side, sir?
- K. Venkatram Rao:** You are talking of only irrigation side. Around Rs. 85 crores we have executed.
- Bharanidhar Vijay Kumar:** So this will be that Veeranjaneya project, primary?
- K. Venkatram Rao:** Yeah.
- Bharanidhar Vijay Kumar:** And what is holding up the Hubli-Hospet project sir, so it has started execution, but still it is at a low execution run rate. So is there more delays?
- K. Jalandhar Reddy:** The Hubli-Hospet is a complete concrete pavement road sir. So what we are doing is we are taking part about 65 km we are constructing on that project. So for that, all the structures and everything we have now started doing it. There had been earthwork of around 35-40 KM we have completed and there had been delays in the crusher permissions. You know we put on the aggregate crushers...
- Bharanidhar Vijay Kumar:** Once the milestones are achieved then the billing and the revenue recognition would be higher from the next quarter.
- K. Jalandhar Reddy:** We are expecting that fourth quarter onwards that will go in full swing, because the crusher permissions have got delayed. Actually even Chairman of NHAI is also represented to the state government stating that they should not delay further NHAI projects. So that is now considered and we are now getting the permission in another couple of weeks. So once we get the crusher permission, definitely I think, things will move as faster as we expect. I think actually there is a complete delay about 6 months on this project.

Bharanidhar Vijay Kumar: Correct. Understood. And on the margins that we had booked this quarter, which is on the higher side, so you mentioned due to the Madurai-Ramanathapuram project being at the last stages the margins are higher, which other projects did you mention is the last stage, I just missed that.

K. Jalandhar Reddy: Actually the Thiruvananthapuram bypass we have reached about 70% and this Madurai project we have reached about 73%. So these two projects there is little bit margins were there which are under due from customer. So to do some A7 standard we had to adjust the budget from this. So some pass on is there on this. But however, if this Hubli project comes in full swing definitely 2%-3% overall impact could be there because that Hubli project is not having as good margins as this.

Bharanidhar Vijay Kumar: In fact because we are subcontracting most of it or what is the reason sir?

K. Jalandhar Reddy: Actually the main problem is there had been some delay in starting up the project due to the quarry permissions and all those things or the state government has delayed; there is a delay in from the government end. And the second one is that being cement concrete roads, all the works will only start after around 8-9 months after the projects gets commenced. We have placed the orders, soon we have signed the agreement. We have placed an order for Paver which is likely to be delivered in 15th December. So that is almost 10 to 11 months delay is there on the concrete Paver supply itself. On the second one, Indian government has taken a stand to go with the cement concrete pavement, so due to which the cement concrete paver suppliers or manufacturers they have a very big queue in front of them. So they are committing this after 8-9 months only, but really they are delivering after 11-12 months.

Moderator: Thank you. We have the next question from the line of Faisal Hawa from SG Hawa & Co. Please go ahead.

Faisal Hawa: My question was regarding, in a previous concall, I think it was the quarter 4 concall where you have said that you have bid for some Maharashtra state contracts also and then there was some tenders also which came in the Economic Times a few days back. So have we participated in those and are we expecting some traction from that. And my other question was with regards to the claims, on the last concall you had said that we have around Rs. 450-500 crores of claims lying pending with the government. So you feel that these claims should come into cash flow in the next 2 to 3 years over different tranches and also how many contracts which are now pending in the order book are not requiring subcontracting?

K. Jalandhar Reddy: Actually the first question which you asked about Maharashtra projects, we are open and bidding that and we have done certain unsuccessful earlier, but now there had been almost HAM projects are there, around 4 projects are there on HAM and there have been 3 projects that have been in the EPC front. So that is why I am focusing on those. With regards to claims, they are all under arbitration stage, certain are in the court case. So it is very difficult to say

when are they going to get into the form of cash flow. But however hopefully as you rightly said around 3 years if you take definitely certain claims would have been realized by that time.

Faisal Hawa: But you stand by the claims figure at Rs. 450-500 crores, and knowing you as a very conservative management, I am sure you must not have put any claims which are not at all right?

K. Jalandhar Reddy: Yeah, definitely. Someone asked the question during last meeting, that how much claims are there and we have said Rs. 400-500 crores. But NHAI they have created so many bodies in the NHAI organization itself for settling the claims. But none of those bodies are working, are good as arbitrations are working. So many of the arbitration cases also they want to dishonor. So that is why we are not exploring the option from NHAI settlement. So we are only depending on the courts to settle the cases.

Faisal Hawa: And about the subcontracts, sir?

K. Jalandhar Reddy: Subcontracting is concerns, it depends; actually most of the earthworks are coming in future. So earthworks we will be handing over to many of our repeat contractors or earthwork contractors, so that we know there is no big equipment we have to purchase. Otherwise rest of the things like putting up crushers and doing the superior layers and all that, company would like to handle themselves, so that the quality finished our workmanship to be kept intact.

Moderator: Thank you. We have the next question from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: Sir, just one question. We talked about Rs. 2,000 crores of order inflows which were targeting for next 6 months and like we are almost in November, so this year we are say targeting around 1,500 crores and we would be executing nearly 1,200 crores kind of existing order book in this quarter and last quarter. So by the end of the year we will be at the similar order book which we have currently, so is that understanding correct?

K. Jalandhar Reddy: Yes, almost.

Alok Deora: Okay. Just one question as to why we are only targeting around Rs. 1,500 to 2,000 crores, I mean there are...

K. Jalandhar Reddy: Rs. 2,000 to 3,000 we are now targeting.

Alok Deora: By March?

K. Jalandhar Reddy: We can't say by March but at least 6-7 months' startup time. Earlier I told you that there had been lot of delay that is happening on the tenders from NHAI. You know literally from last May onwards hardly any tenders have been floated. They have floated lot of tenders, but none

of the tenders were concluded. There are several reasons. The NHAI says that there have been permissions or there have been lot of Ministry delay in sanctioning the projects or funding, all that issues. So because of that I think almost 4-5 months we have lost. Otherwise we would have shown some progress at least by these days.

Alok Deora: Right, because if we end up the year with around 3,500 crores kind of order book, then it would be translating to order book to sales of around less than two which would be quite...

K. Jalandhar Reddy: Actually after the year end we should have around Rs. 4,000 crores kind of levels. Because our target is to have only orders which shows visibility of about 2-2.5 years. We are not going more than that because the issues in this is many projects the timeline they are keeping is only 30 months or 24 months. So wherein if you aim more, it doesn't work actually.

Alok Deora: Okay and next year what kind of order inflows are we targeting?

K. Jalandhar Reddy: Next year, again this year how much turnover we are facing and going forward definitely whatever that is around 20% we will be adding like this year we had Rs. 2,000 to 2,500 cores. So next year we would have around Rs. 3,000 odd.

Moderator: Thank you. We have the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.

Rahul Singh: I just had one question regarding subcontracting. One can see that subcontracting expenses have come down Q-Q because of one project, but also that the CAPEX has been pretty high this year. So just wanted to check if there is any rethinking in the company about changing the way you want to do business by becoming more asset heavy and reducing the subcontracting going forward, I am not talking of this year, but even going forward for fiscal 19, fiscal 20 whether you are thinking along those lines because now the order sizes have increased to an larger number and Bharatmala orders will also come. So does it make sense for you to think about having lower asset turnover but higher EBITDA margins. Is it something which is a thought process in the company. Just wanted some views on that.

K. Jalandhar Reddy: Actually it depends how the competition is going on. The second thing we have to observe that, as I said that larger size of orders coming up and we may have to input lot of equipment and all. Instead I put lot of equipment which are just like trucks and all that, it is very heavy to handle because if I am deploying at least 200 to 300 trucks in a project, so even the labour handling and all it becomes very difficult for us. So certain portion we would like to rely on subcontracts for the heavy-duty earthworks and all. But rest of all other layers like superior layers like cement-concrete pavements are the flexible pavements we would like to do ourselves, which the workmanship kind of quality can be also assured. So, that is sort of arrangement which we are looking at. And going forward Bharatmala and all there have been lot of job which is coming in and the players are very minimum. So we are also expecting sort

of competition also to come down and some reasonable bit set of margins would be there in this.

Rahul Singh: So sir, if one way to take a calculated kind of guess on next year's EBITDA margins, this year obviously you will close at 16.5%-17%. So next year, are we looking at it coming back to 14.5%-15% or you think it will stay there in that range next year also?

K. Jalandhar Reddy: Actually we were always taking around 13% and 14% earlier also, but okay some attrition, some sort of good projects which are good in nature, you know I am working in Kerala. So where I am likely to carry more margins. But if I go to, likely earlier also I have told I have less margins in Karnataka where Hubli-Hospet project. So it depends on the area also sir.

Moderator: Thank you. We have the next question from the line of Jatin Nayak from ICICI Prudential Mutual Fund. Please go ahead.

Jatin Nayak: I just had two questions. So one is how many projects are you working on currently?

K. Jalandhar Reddy: 8 to 9 projects.

Jatin Nayak: Okay. And secondly sir from a management bandwidth perspective, how much of revenue execution can our company do from a management bandwidth perspective?

K. Jalandhar Reddy: So as of now actually, we are not increasing any sort of bandwidths and all sir. We are increasing the ticket size. So even the asset size also we are increasing. So with this we will be able to handle two to three years and we have also nicely get up our second level management and they are well managing the issues, they even have the capability to handle which we are very sure of.

Moderator: Thank you. We have the next question from the line of Rohit Natarajan from IDBI Capital. Please go ahead.

Rohit Natarajan: Sir, I just missed out on that initial remark on this GST transition issue. So if I have to make this like-to-like comparison between this quarter number and the previous corresponding quarter, what is the amount that needs to be adjusted for GST?

K. Jalandhar Reddy: GST, actually as of now I have an Rs. 18 crores we are due to pay before December

Rohit Natarajan: Okay. So 7% to 8% is what you would have to increase this year's net sales, this corresponding quarter's net sales?

K. Venkatram Rao: Yes, nearly 10%.

Rohit Natarajan: Okay. And sir my second question is related to Pollachi. What was Pollachi project this revenue recognized in this particular quarter sir?

- K. Venkatram Rao:** This quarter it is Rs. 63 crores.
- Rohit Natarajan:** Okay. And this is expected to ramp up over the tree cutting issues, or that was solved out and...?
- K. Jalandhar Reddy:** Those have started. There have been some land acquisition in small pockets, otherwise rest of the projects is under control. The project is executed by almost 14%.
- Moderator:** Thank you. We have the next question from the line of Rita Tahilramani from SBI Cap Securities. Please go ahead.
- Rita Tahilramani:** Sir, one on this PAT guidance for FY19, I missed this number, so will this be in the range of 15% to 20% for FY19 or lower, we have MAT benefit right now with us.
- K. Venkatram Rao:** Yeah, FY19 might be that range, actually, around 15%.
- Rita Tahilramani:** And sir, do we maintain the revenue guidance of almost Rs. 2,000 to 2,050 crores for FY19?
- K. Venkatram Rao:** Yeah.
- Rita Tahilramani:** Okay. And we see there is an increase in the investment by almost Rs. 80 crores in Q2 vis-à-vis FY17. Is there something specific there, the balance sheet side?
- K. Venkatram Rao:** We can take offline.
- Rita Tahilramani:** And what is the pending order book on this Pollachi and Telangana irrigation project?
- K. Venkatram Rao:** For Telangana irrigation project Yedula is around Rs. 225 crores in the pending order book and for Pollachi it is Rs. 305 crores.
- S. Vaikuntanathan:** You mean to say the investments in current assets?
- Rita Tahilramani:** Not in current assets, the total investments if I am seeing, so if you see the numbers it was almost Rs. 535 crores in FY17 which has gone to Rs. 622 crores in Q2 18, so I was just wondering what these numbers are?
- S. Vaikuntanathan:** We will get back to you.
- Moderator:** Thank you. We will move to the next question from the line Amber Singhanian from AMSEC. Please go ahead.
- Amber Singhanian:** Could you help me out with the order inflow in Q2 and so far in FY18, YTD?

- K. Venkatram Rao:** Actually in Q2 it is around Rs. 500 crores and for H1 also it is around Rs. 500 crores, order inflow.
- Amber Singhania:** This 450 crores we have got after Q2?
- K. Venkatram Rao:** No Rs., 450 crores we got Q2 actually.
- Amber Singhania:** That is part of this Rs. 500 crores.
- K. Venkatram Rao:** Yeah.
- Amber Singhania:** And this year full year we are guiding around Rs. 2,500 crores of order inflow along with the new, right? And next year around Rs. 2,000 crores revenue?
- K. Venkatram Rao:** Yes.
- Moderator:** Thank you. We have the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Sir two questions. One was any update on this Arunachal project?
- K. Jalandhar Reddy:** Arunachal project it is going on, lot of rain during this past 5 months, now I think works are getting restored and there is a revised estimate. There is an increase in the project cost by around Rs. 120 crores or Rs. 130 crores. so we are waiting really that sort of revised estimate to be approved because there have been lot of payments are held on that account.
- Prem Khurana:** So which is what I wanted to understand how much of our payment is stuck in this project because it has been a while and if I were to look at the order backlog, at least for the last 4 quarters it shows Rs. 46 odd crores of pending number.
- K. Jalandhar Reddy:** Yes, you are right.
- Prem Khurana:** So how much is the payment that is stuck in this project, I mean the retention or the money pending bills in this quarter?
- K. Jalandhar Reddy:** Let us say Rs. 80 crores.
- Prem Khurana:** And sir you spoke about refinancing of these BOT projects, specifically on your Kerala Walayar and if my number was to come down to 8.5% so which essentially means it will leave me with some free cash flow in this project. So does it mean we get to have some kind of top up loan on this, project and which would come back to us, I mean the money that we have invested in terms of quasi equity, would come back to us?
- S. Vaikuntanathan:** That is not envisaged as on date, going forward we will see.

- Prem Khurana:** So basically I mean if the number was to come down to 8.5%....
- S. Vaikuntanathan:** Only now we are just trying to get this subsidized project like when you get more inflow by savings in interest. So that will help in maintenance and repayment of interest and other things. That is what we have been aimed at.
- Prem Khurana:** Sure, but then the tenure would be longer than what we today, right, in terms of repayment which is what would leave us with some cash flows in this SPV because your cost of funding is coming down, right, so which you would get to say some in terms of cash flow, so what would be used as this cash flow for basically?
- S. Vaikuntanathan:** We forgot all that. We will work out on this, whether we can monetize that also will see, monetization may take two years, we should work on additional availability of cash due to lowering of interest.
- Prem Khurana:** Sure. And just one small clarification, so I was looking in our presentation and if I were to look at the toll collection number for Muzaffarpur Barauni for first half. It works out to be almost Rs. 19 odd crores and last call presentation the number was only Rs. 11 odd crores, so which leaves me the number of Rs. 8 odd crores, which is a dip on a sequential basis from 11 to 8, whereas in your opening remarks you said the number is increased to Rs. 13 lakhs a day kind of collection. So where is the mismatch, I mean the 13 is now in Q3, right, or is it there is something wrong with this presently?
- S. Vaikuntanathan:** We have started from October 01st, because we have now received 100% COD. But there are lot of variation due to the rain, Deepavali or Chath Puja, Navratri, so now it has just started stabilizing.
- Prem Khurana:** Okay. So now in this quarter we will get to have the full impact of that?
- S. Vaikuntanathan:** Yeah.
- Moderator:** Thank you. We have the next question from the line of Priyankar Biswas from Nomura Securities. Please go ahead.
- Priyankar Biswas:** Sir, I was looking at your state wise split of the order book and I also observed that in case of Karnataka, the number seems to be higher than what is there in the last quarter. So is there any change of scope in Karnataka for some projects?
- K. Jalandhar Reddy:** Karnataka, change of scope we are expecting because there were structures they need to go with the 4 lanes according to contracts, but they wanted us to go with the 6 lane. Apart from this there have been local representation from underpasses and all. So those were at a stage to consider by NHAI. Once we get the clear order we will start assuming then.

- Priyankar Biswas:** Sir, what is the accretion on that, I mean what is the additional scope because what I see the number is like Rs. 737 crores going up to Rs. 775 crores order backlog Karnataka?
- K. Venkatram Rao:** In Karnataka a small project, one river based project around Rs. 50 crores which we got. So that is why number of project also increased from 8 to 9 and we got some small project that is construction of river bridge actually on Tungabhadra, that is amounting to Rs. 50 crores it is not in much of a size. **Priyankar Biswas:** Okay and sir lastly on the Kerala BOT, so what is the latest level of toll collections now, like how has the toll collection being moving in this quarter?
- S. Vaikuntanathan:** We already informed, the toll collection in Kerala is moving. Now it is average around Rs. 13.39 lakhs per day and added to that we can still go up because the state government transport corporations are yet to pay the money, they have not paid in spite of the court order and we have to get a backlog of around Rs. 4-5 crores. It should go up, and with the adjacent packages completing in the next one year, the toll collections should be very good.
- Priyankar Biswas:** So there is a receivable of like Rs. 4-5 crores from this state transportation department?
- S. Vaikuntanathan:** Yeah.
- Priyankar Biswas:** And if it is paid on a regular basis by then, so what should have been...
- S. Vaikuntanathan:** Another Rs. 40,000 per day it will go up, Rs. 40,000-50,000 per day it will go up.
- Moderator:** Thank you. We have the next question from the line of Divyata Dalal from Systematix Shares. Please go ahead.
- Divyata Dalal:** Just an update on the sale consideration that we had to receive for the two projects, annuity projects which we have sold. Anything pending?
- S. Vaikuntanathan:** The NOC from NHAI is awaited and we have to hear from them and we have given a deadline also before this particular date if it is not received, then we have got a liberty to also look at other avenues. So we are expecting till this month end.
- Divyata Dalal:** The deadline is till this month end, is it?
- S. Vaikuntanathan:** The NOC, if it is received before this month end, yes we will go ahead. Otherwise we will see other avenues also.
- Divyata Dalal:** So any further provision to be done on this project?
- S. Vaikuntanathan:** we already made it.
- Divyata Dalal:** There is no further provisions that can be given?

- S. Vaikuntanathan:** Yeah.
- Moderator:** Thank you. We have the next question from the line of Nitin Dharmavat, an Individual Investor. Please go ahead.
- Nitin Dharmavat:** Sir what is the consolidated debt number you have mentioned?
- K. Venkatram Rao:** The consolidated debt is Rs. 680 crores.
- Nitin Dharmavat:** Okay sir. And the working capital cycles last time it was around 40 days. So is it the same or...
- K. Venkatram Rao:** 41 days.
- Nitin Dharmavat:** And one more question that I have, last time you mentioned that we will be bidding for elevated metro along with some partners from next 6 to 9 months. Any updates on that sir?
- K. Jalandhar Reddy:** There is a huge job that is coming up in the road front only. Currently we are not looking at. And also it is wise to mention that we are doing the similar bridge about 6 KM that is in Salem, 5 road junction we are doing, that bridge is the same segmental arrangement like in the metro. We are already doing in Salem, that is our Rs. 350 crores project that it has just started 9 months ago. So we are doing similar type of projects, not the rail but we are doing the road.
- Moderator:** Thank you. Ladies and gentlemen, we will take the last question now from the line of Faisal Hawa from SG Hawa & Co. Please go ahead.
- Faisal Hawa:** Sir, last question about this NHAI banning certain entities from bidding further and there was some action taken, now they have I think gone back and said we will allow them. So do we see anything coming out of this and narrowing the competition for us and really improving our prospects?
- K. Jalandhar Reddy:** Absolutely that the list had been made by the NHAI and they again later deferred for the competition to be healthy.
- Faisal Hawa:** I remember you always saying that, there are people who are bidding dirtily 3 years back, 2 years back and they were just bidding for that 5%.
- K. Jalandhar Reddy:** But people are also going to be black listed, exactly.
- Faisal Hawa:** So I think is it payback time for these kind of guys?
- K. Jalandhar Reddy:** Yes. But they are not doing it.
- Faisal Hawa:** Okay, the Ministry will not go forward with it?

K. Jalandhar Reddy: Actually they have asked to show some cause, any way there will be lot of mistakes or say the responsibilities is not fulfilled by NHAI as a client. So they will anyhow show those reasons and escape from that.

Faisal Hawa: But you feel them that they will now bid more conservatively going forward?

K. Jalandhar Reddy: Yes, actually Minister himself has opinion, why you change the contractor or terminate the contractors. Don't terminate because if we terminate and go for new bidding, definitely the cost is going to increase for the Indian Government. So good or bad, let us go with the existing contractor itself. It is kind of press statements given by Minister. So I am not very sure that they will be blacklisted or anything. Let us see how it goes.

Faisal Hawa: But going forward they may bid more conservatively now?

K. Jalandhar Reddy: I am really saying they can do some sensible bidding, that is what we expect.

Moderator: Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to the management for closing comments. Please go ahead.

S. Vaikuntanathan: Thank you everyone for your participation in our earnings all. 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, feel free to get in touch with us. Thank you very much.

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