



“KNR Constructions Limited Q3 FY’15 Earnings  
Conference Call”

**February 13, 2015**



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                              **ADVISORS**

**Moderator**

Ladies and gentlemen, good day and welcome to the KNR Constructions Q3 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. 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 involves risks and uncertainties that are difficult to predict. With this, I would now like to hand the conference over to Mr. K. Jalandhar Reddy – Executive Director and CFO, KNR Constructions. Thank you. And over to you, Mr.Reddy.

**K. Jalandhar Reddy:**

Good afternoon friends, I welcome you all for our discussion on Earnings Conference Call for the period of December 31, 2014. Along with me I have Mr. Sravana Kumar – General Manager Finance and Accounts and SGA Investor Relation Advisors.

Let me start giving you a brief introduction about KNR Constructions Limited. As you are aware KNR Construction Limited is an infrastructure development company providing EPC i.e., engineering procurement and construction services across various fast growing sectors namely Roads, Highways, Irrigation, and Urban Water Infrastructure Managements. The company's project execution strength is incomparable with other competitors. We have been doing the construction and maintenance of roads, highways, and flyovers and bridges and wherever integral to the projects we have undertaken. We deliver utmost the best quality and service to our clients. Our key strengths that set us apart from our peers are timely project completions, and Pan India execution, In-house construction equipment and backward integrated model, we source material from our road projects from our captive quarry mines and employ our own crusher units and batching plants.

So let me now share few industry updates. The new government headed by Mr. Modi and MOSD minister Nitin Gadkari have committed to deliver utmost efficiency and best infrastructure to India. NHAI has called for many bids right now, nearly approximately MOSD and NHAI has already called for bids for about Rs. 45,000 crores over few months and bids will be awarded many bids are also due in coming months say February as well as March and we have almost participated in Rs. 4,000 crores worth of projects and several projects we are expecting also which are under pipelines. So, I would like to request Mr. Sravana Kumar to present the quarter ended results for December 31, 2014. Mr. Sravana, please take over.

**Sravana Kumar:**

Good afternoon to everybody. I believe you must have had an opportunity to see our results and the presentation that has been already circulated and uploaded on our website. I would now present the result for period ended December 31<sup>st</sup> 2014. Income from operations posted by the company about Rs. 6,204.6 million in the period ended 12<sup>th</sup> December as against Rs. 5,743.6

million during the same period in the last financial year. Thereby a growth of 8% is achieved. Our EBTIDA for nine months ended 31-12-2014 is about Rs. 914.4 million as against Rs. 885.7 million a growth of 3% over nine months of financial year 14. Other income in nine months of financial year 15 has increased by approximately 44% to Rs. 70.6 million as compared to Rs. 48.9 million in corresponding period of last year; the increase is due to profit on sale of assets and interest income. Our interest cost has gone down approximately by 20% to Rs. 90.7 million in nine months ended 31<sup>st</sup> December 2014 as compared to Rs. 112.8 million in the same period of last financial year mainly due to substantial repayment of term loan and PBT grew up approximately by 23% in nine months ended 31-12-2014 as against Rs. 479.5 million as compared to Rs. 390.5 million, and PAT grew by 47% to Rs. 486.3 million as against Rs. 329.7 million in nine months of financial year 2014. We have claimed an amount of Rs.104.8 million for deduction of projects under section 80IA for the eligible project executed by the company.

And our debt to equity ratio is 0.19 times as on 31<sup>st</sup> December 2014. We will continue to maintain working capital days at about 50 days' level. And our order book as at 31<sup>st</sup> December, 2014, is approximately Rs. 12,129.0 million of which almost approximately 95% is from roads and balance from irrigation projects. During the nine months ended December 31<sup>st</sup>, 2014 the total order inflow is approximately Rs.3,251.2 million, the current order book is to be executed over a period of two years. We are at L1 stage for projects worth about Rs. 16,000 million. The order book also includes one captive road project namely Walayar-Vadakkancherry Project in the State of Kerala which is 14.08% of the total order book as on 31<sup>st</sup> December 2014.

And I would like to give you the BOT project update as at 31-12-2014. Financial progress is 78.4% as against 67.4% planned on our Walayar-Vadakkancherry Project, debt on the project is Rs. 3,565 million as on 31<sup>st</sup> December 2014. We expect that project will be commissioned early by 6 months by May 15 as compared to scheduled COD of 14<sup>th</sup> November 2015. With this, we will now open the floor for question-and-answer session.

**Moderator**

Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have first question from the line of Amit Sinha from Macquarie. Please go ahead.

**Amit Sinha:**

Sir my first question is on the sector, we have seen the EPC awards which happened in the last two months to be pretty aggressive from some of the players. So number one how many players are bidding and is it more than the last cycle?

**K. Jalandhar Reddy:**

Yes actually what is happening nowadays bids are coming with less number of bidders but still there is some aggression among many players who require some cash flow. If you bid on a EPC bid and you are successful you will be getting 10% advance. There are some cash flow problems being suffered by any agency which are not focusing to bid aggressively and take a bid, but I don't think these bids will get succeed in future but however the best thing in it is that any

bid I have seen bid size starting from 300 even bids in 900-1100 tune. We have not seen 6 to 7 bidders more than, maximum bidders are in 7 numbers and even if you see the bid sequence also only two to three people are aggressive. So, I think after another one month or at least 10 to 15 bids there should be proper and some sensible bidding shall be happening.

**Amit Sinha:** Alright sir. sir in November-December NHAI came up with a huge pipeline of EPC orders however in terms of awards which have been already, tenders which have already come through it has been a little bit of disappointment and some of the projects have been deferred. So what is the reason and why is the awarding not happening as per the earlier pipeline?

**K. Jalandhar Reddy:** My knowledge is concerned, actually I even have an enquiry with NHAI last week, actually there are so many bids they have uploaded which they didn't take the approval of ministry. Actually NHAI has uploaded several bids and they have got postponed twice, thrice also many times. And they donot have the proper approval to bid in EPC mode because many were in earlier BOT phase and second what happened they mixed these combination of rigid pavement as well as flexible pavement, I mean CC pavement roads also they introduced certain concepts into these bids. So due to this cost is going up so earlier sanction cost is lesser to the new bid cost. So also they need to get approval from finance ministry as well as ministry of surface transport so that is why they are deferring the dates.

**Amit Sinha:** Okay. So in terms of other clearances, in terms of environmental clearances and land acquisition are these projects already through these things, it is only the ministry approval which is required now?

**K. Jalandhar Reddy:** Yes, I have studied only few bids wherein I found they are okay in nature actually the bids are not getting delayed to land acquisition what I am thinking. Because many places I found that at 70%-80% the land is acquired because these are all old bids, many bids are old in nature because they failed in BOT and somehow surrendered back to NHAI for not getting financial closure and hence all these bids are onboard.

**Amit Sinha:** Sure sir. On our financials the standalone financials as a construction business how the margin has come down from last year corresponding quarter. What kind of margin guidance indication you are giving for the last quarter of FY15 and the next year for your current order book?

**Sravana Kumar:** I think 15% EBITDA we can assure you.

**Amit Sinha:** Okay, and given our current order book what kind of revenue growth you are looking at in FY16?

**Sravana Kumar:** Based on the L1 position about Rs. 1,600 crores and hopefully we will get some more jobs also, if all this is being done I think it should be Rs. 1,000 to Rs. 1,050 crores approximately next year top line.

- Moderator:** Thank you. We have next question from the line of Manish Valecha from Anand Rathi. Please go ahead.
- Manish Valecha:** sir just wanted to understand the Kerala project is now 78% complete have we started toll collection over there we were eligible for toll collection after 75%.
- K. Jalandhar Reddy:** Actually what happened on this project though we have achieved the financial figures what happened the length what they were asking 75% which we are coming short of around say 4 kilometers so what we are doing, we are even trying to complete that 4 kilometers because in between there have been some variations, they have given a variation for some under passes and all because there was a local demand was there so thickly populated place where there is Walayar which this road pass through so there had been some new introduced structures were there. So those were now being constructed so there is some delay that is happening. However I am very sure that by end of the March definitely we will collect the tolls.
- Manish Valecha:** Okay. So what is the current toll revenue that we are looking at over there?
- K. Jalandhar Reddy:** Current toll revenues are actually I think it is in line with the projects whatever is given in the financial model. Last time we have checked I think couple of months' back we had a small check I think one week study was there so due to that it is found that it is in line with the projections what was submitted at the time of FC, financial closure.
- Manish Valecha:** Okay. Sir what is the absolute amount that per day toll collection?
- Sravana Kumar:** About Rs. 18 lakhs a day.
- Manish Valecha:** Okay and sir this early completion toll that we will collect will be shared between the SPV and the parent company is it?
- Sravana Kumar:** Yes.
- Manish Valecha:** Half-half is it?
- Sravana Kumar:** It is 70%.
- K. Jalandhar Reddy:** Half-half actually it is either Rs. 12 lakhs per day or.
- Sravana Kumar:** 70% of net operational revenue whichever is less.
- Manish Valecha:** Okay, that is it and on the L1 project sir the Rs. 1,600 crores what would be the status of the Rs. 930 crores project and the other one?

- K. Jalandhar Reddy:** There has been certain, again I told you earlier I told you that because of BOTs and there is a miss match between EPCs and there is a cost increase due to cement and concretes. These bid need some approval from NHAI. So NHAI was needing approvals from ministry surface transport as well as Finance Ministry. So these were under process so I think it must take another couple of one month time I think shall be getting this order out from NHAI that is what my assumption is.
- Manish Valecha:** These are two projects right Rs. 1,600 crores?
- K. Jalandhar Reddy:** No, there had been some state government projects are there in Tamil Nadu nearby Chennai there are some Kanchi is there, there we had three packages and the three put together.
- Sravana Kumar:** Around six packages in Tamil Nadu.
- Manish Valecha:** Six packages in Tamil Nadu for about Rs. 700 crores?
- K. Jalandhar Reddy:** Yes, three packages put together it is about Rs.700 and the other one is the single largest one is at Madurai Ramnath Puram which is Rs. 900 plus.
- Manish Valecha:** Okay, so this Rs. 700 crores is also having the same problems as NHAI?
- K. Jalandhar Reddy:** Not it is a bank project ADB project I think so they were requiring bank approvals and all so it must be taking some time generally the bank when there is a gap actually between Award and status of L1 there will be gap about say two to two and half months generally in all world bank as well.
- Manish Valecha:** Okay. So no delay as such, it is a normal course of time.
- K. Jalandhar Reddy:** Yes, normal course of time.
- Manish Valecha:** Okay. And sir during the quarter any Mr. Sravana any one time expenditure or anything because of the lower operating margin?
- Sravana Kumar:** No because many were almost in the finishing stage so expenditure was there otherwise no one time expenditure nothing like that.
- Manish Valecha:** So we will bounce back to that 15% EBITDA?
- Sravana Kumar:** Yes, hopefully.
- Manish Valecha:** And sir on the order inflow for the next year can we assume about similar Rs. 2,000 crores kind of number for FY16?

- K. Jalandhar Reddy:** I think in the pipeline we have around Rs. 1,600 crores right now so we are also concentrating another Rs. 1,000 crores new orders. May be bidding is on a slow phase because the ministry was requiring a lot of approvals and all that in process. So must be in March-April should be very good bids placing time may be April-May also we expect some projects.
- Manish Valecha:** Okay. And sir what is the debt on the books currently?
- Sravana Kumar:** Rs.105 crores.
- Moderator:** Thank you. We have next question from the line of Shravan Shah from Karvy Stock Broking. Please go ahead.
- Shravan Shah:** Sir in terms of the tax rate this will can we continue with this lower tax rate at least for FY15 and..
- Sravana Kumar:** Yes, hopefully in FY16 we expect the same tax rate.
- Shravan Shah:** Okay, sir but for FY17 then we will.
- Sravana Kumar:** FY17 we have to take a decision about projects that will be awarded, whether they are eligible for 80IA all these things we have to study. At least this will be maintained next financial year also.
- Shravan Shah:** Okay, so this right now we are getting 80IA benefit on Kerala project only or are there another state project also.
- Sravana Kumar:** Not only Kerala project . EPC projects are also there.
- Shravan Shah:** Okay.
- Shravan Shah:** Okay. And sir how much till date we have received a grant in Kerala project?
- Sravana Kumar:** Rs .190 crores.
- Shravan Shah:** Okay. And sir in terms of this quarter have we seen some kind of cost escalation in our existing orders?
- Sravana Kumar:** No, nothing like that. Only thing is many jobs are getting completed finishing expenditure was there that is all, otherwise no one time expenditure, nothing.
- Shravan Shah:** No, what I am asking is in terms of the cost revision to the original cost what we have received the.

- Sravana Kumar:** Yes, some revisions were there, some variations and all were there that is why there is a change in the value of the works.
- Shravan Shah:** So still this kind of a escalation will happen in going forward from the existing or there is no project where.
- Sravana Kumar:** Escalation will always be there, the new EPC also it is there it ,will continue.
- Shravan Shah:** Okay. And sir CAPEX for the nine month is how much?
- Sravana Kumar:** Almost about Rs. 20 crores.
- Shravan Shah:** Once we receive this Rs. 1,600 crores inflows then in 16 and 17 how much CAPEX do we require?
- Sravana Kumar:** At least next year it would be Rs. 60 to Rs. 70 crores, Rs .60 to Rs. 70 crores similarly in FY 2017.
- Shravan Shah:** Okay. And once this inflows will be there then we will be able to maintain 16 and 17, 20-25% revenue growth?
- K. Jalandhar Reddy:** Yes, what is happening is I would add some more points here earlier we were expecting lesser CAPEX about Rs. 30-35 crores but now what happened sir recently all the tenders which are coming only with the combination of flexible pavement that is bituminous road and as well cement and concrete pavement. So we may have to deploy both types of the equipment's in to the projects. So that is the difference it is little going up.
- Moderator:** Thank you. We have next question from the line of Charanjit Singh from Axis Capital. Please go ahead.
- Charanjit Singh:** Sir actually in the beginning of the call you talked about some of the contractors in NHAI contracts participating just to get advances on the contract but we also heard that some of the terms which seen by NHAI in term they had made the working capital requirements more stringent. So haven't these norm changes in NHAI been able to reduce the competition who have stressed the balance sheets?
- K. Jalandhar Reddy:** What is happening, it is only my assumption what I said that, generally what happens whenever the phase of bid starts because you can see from past four years there had been bidders and BOT bids were there and many BOT bids failed so because of which many agencies have become jobless. And actually many have learnt lessons with the aggressive bidding earlier and few are yet to learn if they go to aggressive bid and whether they will be able to deliver or not. And there are new players coming up into the field example I would quote, if there is a Rs. 300 crores work is floated on a bid, any new person who is getting eligibility to that area, that

fellow is coming and putting it at least 20% at lesser, 15% at lesser and is taking away job. But generally if you really read the terms and conditions of the contract definitely they would not probably do that because it is going to be risky as well it is a lump sum base contract means if you don't estimate the project properly and quote it properly definitely you will not be able to deliver the project with profit. So one has to be very careful with this bidding because earlier BOT bidding was there, there financial burden was there with the bidders, but here only financial burden is not there but rest all other responsibilities are just lying with him only. So, it is nowhere difference from the BOT expect the financial part. So, I am anticipating at least 10 to 15 bids to go in this aggressiveness we have seen only two to three persons are very aggressively quoting and they are away the jobs. So once they filled up with the jobs are bid capacity gets completed rests all have sensible bidding only now happening. So, I think hopefully we will have good bids coming.

**Charanjit Singh:** Okay. Sir in terms of average size of ordering for KNR I hope that has moved up and we would see more competition in may be Rs. 300 crores project.

**K. Jalandhar Reddy:** Sir can you speak little louder because there is some disturbance so I am unable to hear.

**Charanjit Singh:** So the average order size what KNR bids now and NHAI has definitely gone up so in those kind of orders may be at Rs. 500 crores are little higher value size there also the competition is intense or it is only Rs. 300 crores?

**K. Jalandhar Reddy:** Sometimes it is intense.

**Charanjit Singh:** Okay. And can you name some of the new players whom you are seeing in the market who are getting more aggressive?

**K. Jalandhar Reddy:** There had been bidders walking in and going out, it is available in the website and all you can see that because to say some ones name who is aggressive does not suit me.

**Charanjit Singh:** Okay. And sir in the next year pipeline we have talked about Rs. 1,000 crores worth of a pipeline and how is this a pipeline looking from the state side in terms of new order and which particular states you are seeing the buildup happening may be going forward in FY16 if you can give some of the larger projects which you will be keeping track of.

**K. Jalandhar Reddy:** It is a good question. Now about Rs. 1,600 crores we have orders in hand sir, we are targeting another Rs. 1,000 crores and generally looking at Southern states they are more tenders now coming up because in Maharashtra there needs to be lot of road development which was neglected earlier and ministry is also from Maharashtra so I am expecting more bids to happen here and there are lot of bids that are happening even now on board at least four bids of Rs .1,000 crores, Rs. 900 crores worth of bids are there in MP only, Madhya Pradesh. And Orissa there are two bids and now there had been four to five bids are there on UP, Uttar Pradesh and

few other bids are coming from North Eastern part of India. And Assam and all that. And there had been bids in Jammu and Kashmir also.

**Charanjit Singh:** Sir if you could quantify like what would be the size of these bids sizes like you told Rs. 900 crores is in MP so Maharashtra how much will be value sir?

**K. Jalandhar Reddy:** Maharashtra it has started at, I have seen few bids which are under plan with NHAI they started at even there are Rs. 300 to Rs. 200 crores bids are there which are being dealt by ministers of surface transport directly. And above Rs. 300 crores I think they have been dealt with NHAI National Highway Authority of India. There are almost 6 to 7 bids I have seen whose ticket size is wearing from Rs. 300 to Rs. 800 crores also there.

**Charanjit Singh:** Also sir. And sir then what will be the total cumulative value of all these orders which are coming from the state side and over what time frame do you expect them to be finalized?

**K. Jalandhar Reddy:** Pardon.

**Charanjit Singh:** What is the cumulative value of all these orders taken for all the states and over what time frame we expect these to be finalized?

**K. Jalandhar Reddy:** Before March they wanted to award all these Rs. 45,000 crores what I initially told you, but I think there has been delay so couple of months delay should be there in this again. And again new budget what they will plan up that is also yet to be known.

**Charanjit Singh:** Okay, so if I understand currently so Rs. 45,000 crores they were earlier expecting to be finalized by March end but now there is a delay so may be only half of this will get finalize or how much will be finalize by March.

**K. Jalandhar Reddy:** Can't say because bids were postponing so we are not understanding the situation. They say because of the ministry approvals are getting delayed so we are delaying the bid.

**Charanjit Singh:** Okay. And sir do you see like now we are building around Rs. 2,000 crores worth of an order inflow and how does the working capital cycle you expect to look like in FY16 do we see any increase in the working capital cycle with the payment terms also being changed by NHAI?

**K. Jalandhar Reddy:** Actually sir what is happening there is a mobilization advance about 10% will be paid within 90 days of the contract signing. And that will be with the bidders or with the contractors for at least one year time so within one year you have to payback also. So we expect initially lesser first one year we will not have much working capital requirement but on the same project next year the second year of the project will be requiring our own infusion of funds.

**Charanjit Singh:** Okay, but going forward in FY16 as a percentage of sales do we see the working capital requirement increasing from the 35% level to how do you see that?

- K. Jalandhar Reddy:** Actually sir with our growth plans I think whatever the current cash credit limits whatever we have that is catering up to two years requirement. Third year we would like to little more improve that, and with which we would be sufficient enough to take the things forward.
- Charanjit Singh:** Okay sir. And sir just one last question from my side, the state orders which you have talked about these orders in most of these orders have multilateral funding or like what proportion of these orders will have that kind of funding available?
- K. Jalandhar Reddy:** I think whatever we spoken about is on central government projects only sir because ministry of surface transport is dealing few projects and few projects is being dealt by this NHAI. So both the agencies are now giving out. So it is all central government funds only, I think some cess are being collected that is also supposed to be utilized for highway construction what now according to the ministry statement we are coming to know.
- Moderator:** Thank you. We will move on to the next question that is from the line of Adhidev Chattopadhyay from HDFC Securities. Please go ahead.
- Adhidev Chattopadhyay:** Sir just a clarification on our order pipeline now we have now you are saying around Rs. 1,600 crores of L1 orders so we expect all these wins to come in by end of this financial year or spill it over to the next year?
- K. Jalandhar Reddy:** Most probably we are expecting sir.
- Adhidev Chattopadhyay:** Sorry sir?
- K. Jalandhar Reddy:** Most probably we are expecting sir.
- Adhidev Chattopadhyay:** Okay. And over and above that you are targeting Rs. 1,000 crores of orders in the next year. So this includes both the NHAI and state projects or only from the NHAI?
- K. Jalandhar Reddy:** Both. Actually sir what is happening somewhere lot of aggression is there so state government projects are little free so we are not leaving that opportunities also. But, I am looking at a bigger ticket size not a smaller ticket sizes.
- Adhidev Chattopadhyay:** Okay. Sir and like most of these bids like it would be in it will all come to our books or is it in JV with some other partners or how is it the all Rs. 600 crores plus Rs. 1,000 crores?
- K. Jalandhar Reddy:** Now a days most of them are not JVs, only few projects where I am not getting eligibility about Rs. 1,000 crores worth of projects there I would be taking a partner but rest of all the place will am going alone because we are qualifying ourselves.
- Adhidev Chattopadhyay:** Okay, sir and second question in sort of margin which you are seeing in projects the bids which people are putting in so what are the sort of indicator margins across the road projects?

- K. Jalandhar Reddy:** Sir actually it is not like indicative margins and all because once L1 quotes 15% less and L2 close 5% less so there is no assumption of margins that are available in it. We only have to see there are repeatedly some 3-4 bidders are trying to cross that the project cost, they would be out or they should get enough of projects and they will be not participating in the bids, then I think sensible bidding shall happen.
- Adhidev Chattopadhyay:** Sir what I wanted to say, let say by your own cost assets for the project like if there is some other bidder who has big lower than you so for him what sort of margin would that person make on that, it is a hypothetical question.
- K. Jalandhar Reddy:** I am not able to understand one thing in this, because it is not that I want to say something else, sir what is happening here L1 is quoting say (-15%) L2 is quoting (+1%) or (+2%) so there is difference of 18%. So who is wrong sir so here I am unable to probably if you will ask me I think at a PAT level we are working for 5 to 6%. Here anything goes wrong okay 5 to 6% we can understand even if someone wants to do at no profit it is good, they can take it at no profit. But here 15% less and (+2% to 3%) that figure is not understood.
- Adhidev Chattopadhyay:** Fine, got that. Just a last question, now you have said that you have 14 bids of Rs. 4,000 crores, so this is including the L1 of Rs.1,600 crores of excluding, just a house keeping question.
- K. Jalandhar Reddy:** Including.
- Adhidev Chattopadhyay:** And for the incremental Rs. 1,000 crores of orders for how many, what would be the worth of order we would be chasing?
- K. Jalandhar Reddy:** Sir what I am doing is I am studying the project, wherever the project facilities are good, resources are good I am going to bid sir, irrespective whatever the area is which means some BD construction so that I can at least make 1-2% extra margin that is it.
- Moderator:** Thank you. Next question from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.
- Subramaniam Yadav:** Sir just a clarification you said that L1 of Rs. 1,600 crores is likely to come this year right?
- K. Jalandhar Reddy:** Yes, sir.
- Subramaniam Yadav:** Then by next year you are saying only Rs. 1,000 crores.
- K. Jalandhar Reddy:** Sir actually it is like what is happening sir every order is coming for 2.5 years timeline. Today I have Rs. 1,200 crores order in hand, and Rs. 1,600 to be added so another Rs. 1,000 even I take near about (+4000), (+/-200 to 300) crores I will be having in hand, which will show my visibility for 2.5 years. Sir if I target more than that probably I would go for more growth thing

but maybe I am not sure if the market is good I am able to get the margin then I will go in this there is no problem.

**Subramaniam Yadav:** So ideally would be around you mean to say about Rs. 4,000 crores.

**K. Jalandhar Reddy:** 2.5 years visibility or it is enough that is what I am anticipating because older orders will become always burden to the next coming years.

**Subramaniam Yadav:** Okay, and sir what was the order inflow over nine months?

**Sravana Kumar:** Rs. 325 crores.

**Subramaniam Yadav:** Okay, and sir again on the tax rate because I was looking for nine months we hardly paid any tax in fact it is negative because of some tax right back in Q1 so for full year also it would be negligible kind of so similar for next year also it would be negligible?

**Sravana Kumar:** Although we are claiming 80-AI MAT we are paying, we are calculating MAT, MAT is coming higher and MAT is being paid.

**Subramaniam Yadav:** What percentage around 18-19%?

**Sravana Kumar:** Almost 21%.

**Subramaniam Yadav:** Okay. For next year what should we be taking around 20% only tax rate?

**Sravana Kumar:** Yes, MAT only next year only we are expecting MAT will be paid.

**Subramaniam Yadav:** And sir the total 80-IA benefit till date year taken is what Rs. 104 crores right?

**Sravana Kumar:** Yes, approximately.

**Moderator:** Thank you. We have next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** My question is again on the tax just extending the question on the tax benefit. So is it calming all this benefit the 80-IA or all the all EPC projects that we are executing right?

**K. Jalandhar Reddy:** Yes.

**Vibhor Singhal:** But I think this is again taking us back to the 2010-2011 period when lot of EPC companies used to claim 80-AI benefits and then those were not allowed by the ministry and those have to be reversed so do we have a special order or something on the back of which we are claiming these tax benefits and we know for sure that we will not have to reverse them in future years.

- Sravana Kumar:** Actually we have been claiming based on the decisions of several benches of income tax APLET Tribunal even in the case of KMC Construction by Hyderabad bench and Transstroy India by Visakhapatnam bench and recently even department at CIT appeal also they are granting the relief.
- Vibhor Singhal:** But sir none of the other EPC companies are claiming this benefit so any special thing a special provision or anything that we are claiming these under or our projects come under special category that we can claim?
- Sravana Kumar:** No special category, only based on the decision of ITAT we are claiming and what we are doing also at the same time we are paying also taxes so tomorrow there should not be any strain on the cash flows of the company.
- Vibhor Singhal:** So the cash taxes that we are paying that is as per the 30% tax bracket that we allow that is.
- Sravana Kumar:** Yes, actually we are claiming 80-IA similarly we are saying advance tax also every quarter excluding 80-IA benefit so there should not be any issue and all.
- Vibhor Singhal:** So the tax that we are paying is basically 30% tax on the PBT right?
- Sravana Kumar:** That is paid as advance tax but if we see the provision the 80-IA is being claimed so tomorrow there should not be any strain on the cash flows of the company in future.
- Vibhor Singhal:** Right so the cash flow straight will not be there but that means that the tax that we are reporting is definitely much-much lower than the tax that we are actually paying to the government.
- Sravana Kumar:** Yes.
- Vibhor Singhal:** So over what period do you think this discrepancy will even out?
- Sravana Kumar:** Actually it has not yet gone to the Supreme Court and all may be in High Court level and all. So it may travel up to that. But hopefully I think EPC contract there should not be any issue according to me because I have gone through several decisions of ITAT a developer there, they are very clearly defined who is developer and all because developer is nowhere defined in the income tax act. They are simply telling he should not be a works contractor.
- Vibhor Singhal:** Honestly this means of course are availing this benefit but this also means that all our EPC companies can actually claim a lot of tax benefits which none of them are right now.
- Sravana Kumar:** We cannot say none of them but some are claiming.

- Vibhor Singhal:** Sure sir. My second question was on the orders side so as we have seen a bit lull in the NHAI and the other state government road projects so are we looking to expand over horizon let say beyond roads and irrigation or are sticking to those core competencies that we have?
- K. Jalandhar Reddy:** Sir actually we are also expanded recently to river bridges construction, as well urban infrastructure projects like flyovers and all recently we have bagged one flyover project we are doing in Coimbatore which is about Rs. 150 crores. So that is a new thing we have added, again last time I have already mentioned earlier also that we are also elevated metros we are looking at because same the bridge construction and all we are now acquired with lot of equipment and all. The same equipment is also going to be involved in our metro, except that super structural part because segmentals and all we don't have. So that we would like to acquire because once we are in that filed definitely we will come across certain works of that nature.
- Vibhor Singhal:** So any projects for the elevated metros that we had bid for?
- K. Jalandhar Reddy:** Actually we have tied our bidding in Lucknow four months back but we were not successful. We will again try.
- Moderator:** Thank you. We have next question from the line of Kamlesh Kotak from AMSEC. Please go ahead.
- Kamlesh Kotak:** Sir just wanted to understand the competitive intensity as you said is high then will you see the incremental orders coming at a relatively lower margins?
- K. Jalandhar Reddy:** We don't expect that sir because any of the market earlier also market was very hot all the time it is different only, only that we play it little bit slow progressing in BOTs time, but once there are EPCs definitely the strategies are different. We have tried doing a project early completion try to achieve early completion. Like in Kerala also we are trying to do an early completion so with all that this is only the thing which can fetch you 1-2% additional margins also so definitely market does not give you as such margins what everybody is getting there. You only have to do something additional to get certain margin in addition.
- Kamlesh Kotak:** Okay, and you stated that now the bidding is on dual norm of partial bitumen and partial cements so how those changes happened could you just throw some more light.
- K. Jalandhar Reddy:** CAPEX is only increasing in this so that overhead we have to take into the account and put on the bids.
- Kamlesh Kotak:** So what is the relative cost difference between the two in terms of the cost?
- K. Jalandhar Reddy:** Actually what is happening sir, the CC pavement at least Rs. 30-40 crores, you need to invest at least for one-two projects.

- Kamlesh Kotak:** No my point is sir how the bidding cost changes between bitumen and cement if the road...
- K. Jalandhar Reddy:** Actually cement road and bitumen road I think 15 to 20% it varies sir.
- Kamlesh Kotak:** So the same road has got two layers of cements and two bitumen is it that way how it works?
- K. Jalandhar Reddy:** Yes, sir actually what they are doing now I have seen combination of bids like that, that existing now already bitumen growth must be there the two lane or whatever it is, so the new two lanes what they are expanding that is they are going with the CC pavement and the existing whatever that bituminous roads are there they are going only to do the bituminous roads so the now the bidders are to be ready with both the costing.
- Kamlesh Kotak:** That would be norm for all future biddings?
- K. Jalandhar Reddy:** Yes, sir. Most of the bidding actually that is what they are doing because the ministry complains saying that bituminous cost was going like anything. Going up like anything and construction is becoming costlier but as well cement is also behaving like that today so they have to think twice and do whatever they are doing.
- Kamlesh Kotak:** And sir what is the scene on the land acquisition for this EPC projects which are tendered out, how is the land being acquired for them how is that?
- K. Jalandhar Reddy:** Sir recently we have checked on around 10 projects near about, out of which I found most of them are 60-70% acquired only. So few are almost done with 90% also, so I think land acquisition is not that bad as it was earlier.
- Kamlesh Kotak:** But then what is causing the delay in bidding and tendering the way that has been.
- K. Jalandhar Reddy:** As I earlier mentioned it is only happening because of the cement, concrete pavement they have introduced, the cost of the projects have gone up so they are taking the sanctions for this. So maybe there is lot of rift going between Finance Ministry as well this Surface Transport Ministry stating that once bituminous roads are cheaper why would you like to spend more, kind of questions what they are getting and which they are adding all the explanations and sending it back to the ministry and all.
- Kamlesh Kotak:** Okay, sir finally any take on the new Southern states Andhra and Telangana how you see any tractions in terms of their infrastructure?
- K. Jalandhar Reddy:** Only after March I would be able to see some light in this.
- Kamlesh Kotak:** So nothing material with that has changed?

- K. Jalandhar Reddy:** We would like to see that right now because lot of water projects are likely to come from Telangana and lot of infrastructure projects are likely to come from Andhra Pradesh so both were on the progressing phase only. Only the funds tie up how it could be done and any central government support will be there, there are ambiguities which needs to be addressed. So after March budget I think there will be some light we may get.
- Moderator:** Thank you. We have next question from the line of Amber Singhanian from Asian Markets. Please go ahead.
- Amber Singhanian:** Most of my questions has been answered, just a few questions. As you mentioned about the revenue growth for the next year based on your order book I just wanted to understand for example if the order book issue is not there in terms of you have ample quantity of orders then just a hypothetical question on what kind of revenue numbers we can achieve given our current bandwidth and execution capabilities on that part?
- K. Jalandhar Reddy:** Actually sir this year if the L1 project are getting awarded before March definitely I think we are targeting above Rs. 1,000 crores to be achieved and generally the subsequent year should be very good because all the orders will fall in line and any project to be mobilized and all it will take at least four to five months to contribute proper revenues and all. So you know after awards we will have that curing time so may be whatever with the available orders and combination from new order we must be doing better in the coming years.
- Amber Singhanian:** So would it be fair to assume sir like after two-three quarters once we get four-five months after this new order comes in we can enter into the high growth trajectory or 25% to 30% CAGR also will that be possible?
- K. Jalandhar Reddy:** Actually sir that is what we have to see sir generally I am targeting to be very good, there is no lesser effort from our side for this thing. Definitely we try our best sir.
- Amber Singhanian:** Okay, and sir just a bookkeeping question. The short term loans and advances and other current assets have gone as on September as such just on the last quarter number so what is the situation now?
- Sravana Kumar:** Now certain loans and advances they have not gone up actually in fact long terms loans have gone up now presently in December.
- Amber Singhanian:** So now the long term loans is?
- Sravana Kumar:** Little bit have gone up.
- Amber Singhanian:** And how the situation you are seeing in the future sir?

- Sravana Kumar:** Generally any BOT is awarded only then I think that long terms loans and advances will go up because we have to grant the unsecured loans to the SPV only. it will improve otherwise it will stay at the same level.
- Amber Singhania:** Okay. And the current order book of Rs. 1,200 crores is entirely ours or does that also include any portion which is for the SPV partner?
- Sravana Kumar:** No, it is exclusively ours only.
- Amber Singhania:** And so is that Rs. 1,600 crores of L1?
- Sravana Kumar:** Yes, that is excluding.
- Moderator:** Thank you. We have next question from the line of Parikshit Kandpal from Reliance Securities. Please go ahead.
- Parikshit Kandpal:** Kerala BOT project how much is the total equity.
- Sravana Kumar:** Total equity Rs. 136 crores that has been invested already.
- Parikshit Kandpal:** So 100% of your equity has been invested.
- Sravana Kumar:** Yes.
- Parikshit Kandpal:** Sir I am saying after completion are you looking to exit this project or you will be retaining this?
- K. Jalandhar Reddy:** We will see sir because any good opportunities that are coming definitely we would like to explore that.
- Parikshit Kandpal:** Okay. And sir the guidance which you said that next year you will be taking around Rs. 1,000 crores of new orders so I assume these will be EPC so what will be the BOT target how much you are looking to take in terms of BOT for the next year?
- K. Jalandhar Reddy:** BOT sir actually I am not targeting anything because once I have enough EPC I will never look at BOTs also. BOT I took only to survive myself during the tough times. Or any good respect that means it is not that I will stop bidding I will bid but I bid at my own cost
- Parikshit Kandpal:** And these orders Rs. 1,600 crores is all through your means there is no partner in that and this Rs. 1,000 crores also you will be bidding all alone or there is a partner you are looking forward?
- K. Jalandhar Reddy:** We would be going with the partner sir in future.

- Parikshit Kandpal:** For this Rs. 1,000 crores also next year?
- K. Jalandhar Reddy:** Yes.
- Parikshit Kandpal:** With Sadbhav you have been bidding along with Sadbhav so that JV is still on or you are bidding separately now?
- K. Jalandhar Reddy:** Actually sir in certain bids we want wherever Rs. 1,000 crores plus projects are there Sadbhav and we are open to join.
- Parikshit Kandpal:** Okay, but you are not looking to take a project where there is a huge equity outgo so you will be very conscious on.
- K. Jalandhar Reddy:** Actually now days whatever the money we have it is enough for us to run our show forward. We don't have excess money that I can put in some projects.
- Moderator:** Thank you. We have next question from the line of Vijay Kumar B from Spark Capital. Please go ahead.
- Raghavan:** Hello, sir this is Raghavan from Spark. Sir just wanted to know out of the current order book of Rs. 1,200 crores are there any slow moving orders or non-moving orders is there.
- Sravana Kumar:** Only one irrigation project about Rs. 65 crores other than that everything is moving only, because of land not handing over by the Telangana government it is getting delayed otherwise there is no issue.
- Raghavan:** Sir outside South which are the states we are comfortable in terms of execution in these projects?
- K. Jalandhar Reddy:** Yes, we are doing some projects in MP, UP, and Bihar. Earlier also we have done some projects in Assam, but Assam is a high rainy area so there actually more of equipment efficiency as well man power efficiency is not to the expected levels, so margins are not up to the mark.
- Raghavan:** Okay. So the tax thing one more clarification basically if I look at cash flow tax last four-five years we have been paying almost 30% of our PBT as tax so will that continue?
- Sravana Kumar:** '12-13 financial year and '13-14 only we have claimed 80-IA this year we are continuing before that we have not claimed and even this year what we have decided is we will claim 80-IA and similarly we will pay advance tax also so there should be not be any strain on the cash flows of the company in future.
- Raghavan:** Okay, so advance tax basically will that be a MAT tax?

- Sravana Kumar:** MAT is there we are paying, 21% almost.
- Raghavan:** Okay so for cash flow purposes it will be 21% tax is what one I should assume right?
- Sravana Kumar:** Yes.
- Raghavan:** For cash flow purpose?
- Sravana Kumar:** Yes.
- Moderator:** Thank you. We have next question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Sir my question is on the softer commodity prices especially in the bitumen prices coming down in the last three-four months so with that respect I was curious on how much of your order book is on fixed price basis and how does the softer bitumen prices impact your margin.
- K. Jalandhar Reddy:** Except that Kerala project everything is not on fixed cost, only that Kerala project around 250 cr I think.
- Sravana Kumar:** Except 15% of the order book sir.
- Amit Sinha:** Okay. And secondly on the JV thing which you talked about which you have with Sadbhav so how does the arrangement work?
- K. Jalandhar Reddy:** Sir it is occasional sir what happens once you are coming short of any experience technical bid evaluation we would be requiring some ones help than I would be open to take with Sadbhav engineering which we have already spoken, I am qualifying up to Rs. 1,000 crores so something Rs. 1,000 crores plus I will be needing someone's hand to bid.
- Amit Sinha:** Yes, so let say for a Rs. 1,000 crores project what is the kind of basically revenue booking you do and what is the kind of revenue booking he does?
- K. Jalandhar Reddy:** It depends sir case to case, if the work is on my interest what I would do I would take at least 60% stake, if he is interested he will take 60% like that.
- Amit Sinha:** Okay, there is no fixed arrangement.
- K. Jalandhar Reddy:** Yes, otherwise 50-50. Case-to-case the discussion will go each project to project it may vary sir.
- Moderator:** Thank you. Next question from the line of Ankita from B&K Securities. Please go ahead.

- Ankita:** Hi sir this is Ankita here. Sir my question was regarding these L1 projects that you have mentioned Rs. 1,600 crores that is expected to come so the delay as I understand is because your revised cost is higher than your earlier sanction cost by the Ministry, so this is the problem for the Rs. 900 crores order Madurai-Ramanathapuram. Is this problem similar to the other projects also the Rs. 700 crores project that we have?
- K. Jalandhar Reddy:** Not actually that is a different one.
- Ankita:** That is the state project.
- K. Jalandhar Reddy:** Generally that is being funded by Asian Development Bank belonging to state government of Tamil Nadu so generally there is bid it can be awarded in 2.5 to 3 months it will take, the procedural delay is that much because after getting the bids they will go for bank approvals and all that.
- Ankita:** Okay, so these projects will take time to convert from L1 to order inflows?
- K. Jalandhar Reddy:** Yes, ma'am.
- Ankita:** So 2.5 months if you are saying that then there is high likelihood that they will get pushed back to FY16 and not come and not come in FY15?
- K. Jalandhar Reddy:** Yes, there are chances like that but we expect everything to come in time.
- Ankita:** Okay. So if this gets pushed back to FY16, but then how about Rs. 900 crores that order from NHAI the Ministry approval when is it expected to or is there any progress because last quarter also we had highlighted the same thing that.
- K. Jalandhar Reddy:** Actually what is happening ma'am anything approvals and all they will be done through a committee such so there is a EFC Committee meeting after that Project Investment Bureau Committee will be there so these two committees it has to pass through then it will come for awarding, so generally there have been lot of un-predictions when the meeting is conducted. It is between all the government officials and IAS officers do sit on this so the date communication and all it takes some time is that I am expecting but however, that is not our thing, it is NHAI responsibility to get the things done. As of now whatever that one month time line I am telling it is committed by NHAI. We will ask now how many days it will take to award that we will ask them so they will tell within a month it will happen like that.
- Ankita:** Okay, assuming we don't get these orders in the current fiscal what kind of a top line revenue number do you see expect for FY16?
- K. Jalandhar Reddy:** Rs. 1,200 crores we have ma'am in hand.

- Ankita:** With the existing order backlog only, exactly that is what I am saying.
- K. Jalandhar Reddy:** With the existing current level we will be going forward but however, I think L1 status has to be awarded almost it is now two months is already over for these bids so another one month they should award. So or it may take one more month delay that is all. That does not create any much difference only one month impact will be there on balance sheets.
- Ankita:** But even if they come through execution will not start immediately on these projects so the first FY15 numbers will be coming largely from your existing order backlog only. So what kind of full year number for FY15 are you expecting?
- Sravana Kumar:** FY 15 it would be in the range of Rs. 850 crores.
- K. Jalandhar Reddy:** FY15 there is no change we have already told you. '16 and '17 will be something good.
- Ankita:** And '16 you are expecting around Rs. 1,000 crores.
- K. Jalandhar Reddy:** Rs. 1,000 plus we are targeting also.
- Ankita:** And sir how much would be the consolidated debt as of now?
- Sravana Kumar:** Consolidated debt is almost it is coming to Rs. 500 crores.
- Moderator:** Thank you. We have next question from the line of Pratik Poddar from ICICI Prudential. Please go ahead.
- Pratik Poddar:** Sir just one question on the tax rates, just wanted to have some clarity you are basically paying 30% cash tax it is only in the books of account that you are recording 20% is that understanding correct?
- Sravana Kumar:** Exactly, but full taxes we are paying as advance tax every quarter-to-quarter.
- Pratik Poddar:** Understood sir. So even if say an adverse order comes it will only be a book entry it will not impact your cash flows?
- Sravana Kumar:** Exactly. It is a prior period tax like that it will be there reflected.
- Pratik Poddar:** Right but it will not impact your cash flows.
- Sravana Kumar:** Yes.
- Moderator:** Thank you. Next question from the line of Charanjit Singh from Axis Capital. Please go ahead.

- Charanjit Singh:** Sir you had mentioned that we have also started bidding for bridges and flyovers and when we have discussed about the pipeline we didn't talk much about that segment and how is the profitability in that segment versus other roads projects which you are executing if you can give us some details on the pipeline as well as the margins.
- K. Jalandhar Reddy:** The things is that the fly overs and bridges they are very specialized work, they have according to my knowledge whatever the assumptions we make that will be 1% to 2% plus to the normal margins what we have. 1 to 2% are higher than the roads. These are specialized work actually what happens it requires lot of technology and everything it is not everybody's game that anybody can do it. So here the bidders also hardly we find 2 to 3 bidders, 4 bidders maximum.
- Charanjit Singh:** Okay, So sir what is the kind of pipeline for these kind of projects because these look like much more lucrative projects for us so I have bid or we have evaluated the pipeline if you can quantify that pipeline for us.
- K. Jalandhar Reddy:** Actually sir what is happening we were running two to three units in this which we would like to improve to five units coming this year, which could be around say 20 to 25% of our revenues.
- Charanjit Singh:** Okay, so 20 to 25% of our revenues in FY16 is that correct?
- K. Jalandhar Reddy:** Yes, sir.
- Charanjit Singh:** And what was that in FY 15 sir?
- K. Jalandhar Reddy:** That was around say 15%.
- Charanjit Singh:** Okay, it was around 15% and which geography it is likely definitely in the Southern region?
- K. Jalandhar Reddy:** Chennai, Coimbatore, and some other cities also we are focusing. Right now we are present in Chennai and Coimbatore. And River Bridge is there in AP-Chhattisgarh border
- Charanjit Singh:** AP and Chhattisgarh border?
- K. Jalandhar Reddy:** Yes.
- Charanjit Singh:** And sir generally what is the time frame for execution of these projects?
- K. Jalandhar Reddy:** We get at least three years.
- Charanjit Singh:** Three years for execution?
- K. Jalandhar Reddy:** Yes.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over floor back to Mr. Reddy for his closing comments. Over to you, sir.

**K. Jalandhar Reddy:** Thank you very much for all of you to participate on this third quarter results and thank you very much. Any question you can raise through mails and we will be happy to answer that. Thank you.

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