



“KNR Constructions Limited Q2 FY16 Earnings Conference Call”

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LIMITED**

Moderator:: Ladies and gentlemen good day and welcome to the Q2 FY16 Earnings Conference Call of KNR Constructions Limited. 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. 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K. Jalandhar Reddy – Executive Director for KNR Constructions Limited. Thank you. And over to you, sir.

K. Jalandhar Reddy: My name is K. Jalandhar Reddy, good afternoon, welcome you all on our earnings call for quarter and six months ended on 30th September, 2015. Along with me I have Mr G. Sravana Kumar - Chief General Manager, Finance and Accounts; and Mr. Venkatram Rao - General Manager, Finance and Accounts; and Strategic Growth Advisors ,our Investor Relations Advisors.

I would like to start with a brief update on key developments in the industry. The revival in sector is visible from the fact that the government has awarded approximately 4,500 kilometers of project length during the first six months of the current year. These results of government efforts to address the issues faced by the industry. Few steps taken by the government are here under: one time fund infusion to revive the physically complete languishing National Highway Projects, faster land acquisition, amendments to model concession agreement, allowing premium restructuring, easing exit clause from road projects, apart from these NHAI has recently announced three major reforms which will also ease on the burden of the developers and EPC contractors. To ease out the cash flow stress faced by the projects the premium repayments due to low cash flow growth the NHAI has allowed the back ending of premium payments and aligning it with the project cash flows.

NHAI said that if the road project does not start within one year of signing the agreement it would be deemed as terminated thereby addressing the issues of delaying and getting the various clearances. On the maintenance of the road projects NHAI has said that contractors will have to maintain the roads for four years instead of two years after completion of the completion change in the fee structure paid by the government to the contractors this will entail the greater focus on the maintenance after project completion. All the above efforts by the government are yielding results which is visible by the revival of projects which may seek stuck for long time and that improved awarding activity.

Coming to the company updates our order book as on 30th September, 2015 is about 3,665 crores. Order from the road segment is about 98% whereas the balance 2% is from the irrigation project. In this last eight months we have received order worth of 2,590 crores which gives the visibility over two years in terms of execution. To improve our execution outlook

further we continue to bid for the projects and expect to win projects worth about 500 crores to 1,000 crores in next four months to five months.

I would now request Mr. Sravana Kumar to present the results of the quarter and six months ended 30th September, 2015. Mr. Sravana Kumar, please take over.

G. Sravana Kumar:

Yes, good afternoon friends. I hope you must have had an opportunity to see our results for the quarter ended 30th September, 2015. The revenue on standalone basis is 217 crores in Q2 FY16, as against 170 crores during the same period in the last financial year, thereby a growth of 27% is recorded. Our standalone EBITDA for Q2 FY16 has been at 39 crores with margins about 18%. Standalone profit before-tax grew by approximately 104% to 33 crores in Q2 of FY16 as compared to 16 crores in Q2 of FY15. Standalone profit after-tax grew by 297% to 55 crores from 14 crores in Q2 FY15.

I will now present the results for the half year ended 30th September, 2015. Total revenue on standalone basis is 388 crores, as against 107 crores during the same period in the last financial year, thereby a degrowth of 5%. The de-growth is due to mainly lower execution in the region which was broadly affected by unseasonal rains in the quarter one of FY16. This is also due to the reason that about 70% of the orders received in the current order book have been awarded to the company post March 2015 only and it takes at least about five months to six months' time for them to contribute to the top-line.

Our standalone EBITDA for half year of FY16 has been at 64 crores against that 16.4% an improvement of 130 bps over the same period last financial year. Standalone profit before-tax grew by approximately 58% to 50 crores, in half year FY16 as against 32 crores in half year of financial year 2015. Standalone PAT grew by 110% to 70 crores from 34 crores in first-half of financial year 2015. Growth in profit after-tax, the growth in profits is due to tax refund of previous year on account of claiming an 80I benefit and interest on tax refund which is classified as other income. The tax refund is approximately 25.5 crores for the financial year 2008-2009 to 2011-2012. Interest on tax refunds, for the quarter further income is about 3.8 crores.

We come to the balance sheet now. As on 30th September, 2015 standalone net worth is about 638 crores and gross debt is 62 crores and net debt is 40 crores respectively. On consolidated basis net worth is 837 crores, gross debt is 772 crores and net debt is 737 crores. The debt to equity for 30th September, 2015 on standalone basis is 0.06 whereas 0.88 on consolidated basis. EPC order book, our order book as of 30th September, 2015 is 3,664 crores it includes 19 crores of captive project that is from Kerala and balance 3,586 crores our third-party road EPC projects. Our roads order book also comprise of international road EPC project worth 263 crores. We also have an irrigation project of 560 crores. Execution timeframe of the current order book is about total two and half years.

We come to the BOT project update now. We have received final completion certificate for 100% project link for our toll base of Walayar-Vadakkancherry Road Project on 31st October,

2015. The total debt on the project is 460 crores as of 30th September, 2015. We currently have one BOT project under construction in Bihar that is Muzaffarpur-Barauni stretch. The project is on toll basis and we hold about 51% stake in the project. The pending equity requirement is to the tune of given 20 crores which will be infused over a period of next six months to eight months. We expect the projects to be operational by March 2016.

With this we 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. The first question is from the line of Agastya Dave from CAO Capital. Please proceed.
- Agastya Dave:** Sir, I had one question on some of the numbers. You mentioned that there is some other income element coming from the tax refund.
- G. Sravana Kumar:** Yes, that is interest on tax refunds.
- Agastya Dave:** Interest on tax refund, that is in the publish result is it part of other operating income or other income?
- G. Sravana Kumar:** Other income.
- Agastya Dave:** Purely, other income and that is the entire amount sir that is 8 crores this quarter?
- G. Sravana Kumar:** About 5.8 crores.
- Agastya Dave:** 5.8 crores, okay. And sir, the second clarification is on the again the tax expenses this has been asked a few times in the previous calls. I was just wondering sir this if you exclude the prior period taxes the current tax that we have paid is also low, right so, is this rate expected to continue or can you give a guidance for the next two years?
- G. Sravana Kumar:** We will have to take MAT only, 21% we have to consider.
- Agastya Dave:** 21%?
- G. Sravana Kumar:** coming year also MAT we have to consider.
- Agastya Dave:** 21% you said, sir.
- G. Sravana Kumar:** Yes.
- Agastya Dave:** And sir, this refund the cash has come back or have we just recognized it on the P&L?

- G. Sravana Kumar:** Actually cash did not come based on the orders we have to recognize that actually 29 crores was the total amount I think 30 crores including interest, interest they have adjusted some liabilities for recent years almost 10 crores we have received in cash.
- Agastya Dave:** Okay. And the remaining will be adjustments in the balance sheet.
- G. Sravana Kumar:** Yes, actually there are some cases which are still pending between Tribunals but whenever there is a refund they have to adjust the liability then only in future it will be released.
- Agastya Dave:** So we will get the details in the Annual Report, right sir?
- G. Sravana Kumar:** Yes, sure, 100%.
- Agastya Dave:** Sir, my next question was that in the previous cycle we use to see that generally irrespective once the company's had sizeable order books the financial year use to be something like one-sixth of the revenue coming in the first quarter and second quarter amounting to one-third of the total and second-half of the year you should two-thirds of the total year revenue. So are we doing something similar now I know last quarter you said that there are some delays execution delays in your company because most of the orders have been very recently I mean obtained so, do we see that normalization of execution is actually going or.....
- G. Sravana Kumar:** As you said that is generally is applicable one-third-two third but this year it may not be like that because the new orders it is still taking time to contribute to the top-line and in Tamil Nadu State Government we have three projects funded by World Bank still it is taking time for them to contribute to the revenue. So this one-third, two-thirds I think may not be appropriate for this year, generally it is okay otherwise.
- Agastya Dave:** Okay. So sir whatever you guided to in the previous con-call on the new orders getting executed that is still through, right? Or are we seeing further delays?
- G. Sravana Kumar:** No, Madurai Ramnathpuram that project started Trivandrum I think that is mobilization of resources going on right now.
- K. Jalandhar Reddy:** Yes, actually in Trivandrum since three months, two and half months there is continuation rain is going on even today there is rain. So actually that is the biggest hurdle which we are facing and there was some tree-cutting problem was there but that is also resolved a week ago so, now we are able to go ahead but still that because of the heavy rains that are going in Trivandrum from past two and half months we are unable to just touch that targets or whatever we have set in that. But however, I think in another couple of weeks we shall get the situation in control and go forward.
- Agastya Dave:** So for the financial year we are on track broadly?
- K. Jalandhar Reddy:** Yes, actually maybe we have expected something good in this November but we are now missing the track because all 15 days there was full rain and that tree cutting permission

received a week ago so I think ground is now clear rather it would have been cleared last month only.

Moderator: Thank you very much. The next question is from the line of Manish Valecha from Anand Rathi. Please proceed.

Manish Valecha: Sir, just a couple of questions first the tax thing is now clear till FY12, is it?

G. Sravana Kumar: Yes, exactly.

Manish Valecha: So, 2013-2014-2015 is still pending?

G. Sravana Kumar: Still pending.

Manish Valecha: And how much amount would that be?

G. Sravana Kumar: That will be about 60 crores about.

Manish Valecha: So, given the current benefit that we have got 80-IA benefit so most likely this can also come in our favor?

G. Sravana Kumar: You know this should come in our favor only, it is an outcome of the past cases it also come in our favor because upto ITAT level it is cleared now. We have got relief from ITAT level for the last seven years prior to 2011-2012.

Manish Valecha: Okay. And sir, on the margin front for last two quarters we have done about 16.2-16.3 EBITDA margin. So are we seeing that this current margin can be sustained over a period of next two quarters - three quarters?

G. Sravana Kumar: I think on this Kerala BOT was there, it is also now totally completed. So you cannot say that it is sustainable.

Manish Valecha: Okay. And so does this toll revenue also come in this standalone results the toll revenue from Kerala which we collected?

G. Sravana Kumar: Annually, in consolidated results

Manish Valecha: It will come in the annual numbers only?

G. Sravana Kumar: That is right.

Manish Valecha: Okay. And sir on the ordering front what is the traction that we are seeing in the NHAI corridors I mean any moment on that front new order?

- K. Jalandhar Reddy:** That is quite good actually it is actually it is quite aggressive now and there have been a lot of tenders which are now we have also participated and past seven tenders - eight tenders in the state of Jharkhand and also now in Karnataka we are trying to participate. Karnataka there are two tenders of size 800 crores each and another is one tender for 1,200 crores. So there are three projects in Karnataka right now and Maharashtra is still awaited actually there are a lot of projects on the bid. Apart from that there have been Bihar. Bihar tender is about six - seven tenders are there of size 800 above. So I think there are ample tenders are there and we are also expecting some of the new tenders to be also coming.
- Manish Valecha:** Okay. So we are looking more on the hybrid front or EPC front only?
- K. Jalandhar Reddy:** We are now actually sir now we I think our order book is about 3,600 crores what we have right now and further we only need in five months - six months we only need another say 500 crores to 1,000 crores. So I do not think we have to step into some sort of hybrid annuities and all and end up again putting into the equity and all. So we are just without that only we want to try and take EPC projects without going into hybrid I mean to say.
- Manish Valecha:** Okay. And has the competitive intensity or aggression in terms of bidding gone down, are you seeing that?
- K. Jalandhar Reddy:** Actually sir, right now the backend results we have to see then we will be knowing it but however aggression is there in the market I think right now still there.
- G. Sravana Kumar:** Manish, this tax refund 60 crores which you have asked for financial year 2012 -2013 to till date in regard to I want to clarify is this whenever it is received also it is not going to P&L.
- Manish Valecha:** Yes, I know that.
- G. Sravana Kumar:** Just I wanted to clarify.
- Moderator:** Thank you. The next question is from the line of Vijay Kumar from Spark Capital. Please proceed.
- Vijay Kumar:** Sir, question on the orders we had got in FY16 so far if I compare the numbers order outstanding from the end of last quarter to this quarter it is the same for example the Madurai Ramnathpuram, the Kerala project, the Tamil Nadu project, so what is the status there and when you think it is likely to start execution?
- K. Jalandhar Reddy:** Sir, I think we were expecting some good growth in November earlier because of this unseasonal rains and a lot of disturbance due to this rain only, I think another one month delay we are expecting in this so, I think full execution will be there in the last quarter not on the third quarter also. So I think full fledged execution on these new projects we are expecting in December quarter.

Vijay Kumar: Okay. So as I understand you are telling after December the three projects will start contributing for revenues?

K. Jalandhar Reddy: Yes, they will be contributing to the top-line.

Vijay Kumar: And the LOA have been got for these projects right?

K. Jalandhar Reddy: Yes, LOA have been issued and other ways are concluded in the month of May-June so there we achieve five months - four months is the minimum required because I think two and half months there is full unseasonal rains in Kerala that is in Trivandrum. So we are unable to get again that project into control but however we have done our mobilization part and all. So we expect some growth to come after December we shall generate by December end and we are thinking to generate some top-line on that.

Vijay Kumar: Sure, sir, understood and did we win any other or apart from the Madhya Pradesh order in this quarter the 255 crores apart from we receive...

K. Jalandhar Reddy: Nothing, that is all.

Vijay Kumar: Okay. No, because I am trying to reconcile the execution and the order book at the end of two quarters, I am just getting a higher number for the new orders received. So last quarter at the end of last the order book was around 3,300 crores we will be close to 235 crores sorry, this quarter end about 3,600 crores that leaves a new order inflow of about 350 crores so, I am just trying to reconcile that.

G. Sravana Kumar: out of this it was 3,300 as of June 30th but now in the case.

Vijay Kumar: It is June 30th, 3,300 sir?

G. Sravana Kumar: out of that Madhya Pradesh order received?

Management: 255 Crores

G. Sravana Kumar: No, when, in the second quarter or first quarter?

Management: Second quarter.

G. Sravana Kumar: In the Second quarter, the Madhya Pradesh order received 255 crores.

Vijay Kumar: Yes, sir I am just now trying to reconcile.

G. Sravana Kumar: And major thing has come from BOT that is almost coming to 25 crores

Vijay Kumar: Okay, sir. Other question, so what would bid pipeline that we are potentially seeing and what will be the likely new order going forward in next two quarters or three quarters?

- K. Jalandhar Reddy:** Pardon, sir.
- Vijay Kumar:** What is the bid pipeline that we are seeing?
- K. Jalandhar Reddy:** Actually just now I mentioned about the orders which are in pipeline actually I have not mentioned about whatever in pipeline but my interest areas are I have already said. There are six tenders - seven tenders in Bihar, three tenders we have already submitted in Jharkhand and there is some Uttarakhand also there are some bids apart from that we have three bids in Karnataka of 800-1200 size and also expecting some projects in the state of Tamil Nadu.
- Vijay Kumar:** Understood. So since we are close to 2,600 crores in the last eight months how much more is our appetite in the coming?
- K. Jalandhar Reddy:** Sir, actually our appetite is to take that about 1,000 crores in coming four months to five months that is what is the target what we have in our front. So whatever gets minus from this year end quarter that we may add up and see that top up of that is it.
- Vijay Kumar:** Understood. And one final question, so, what was the reason for the higher margins in this quarter? It is about 18% even if I remove the other or the higher charges of 4 crores it is about 16% so any particular reason?
- K. Jalandhar Reddy:** Yes, actually that is now where it is purely occasional. Go on Sravana.
- G. Sravana Kumar:** Mainly see the income tax refunds are also contributing to 6.6%. Our interest income is almost 5.83 crores. So it was not there earlier, so 31 crores if we exclude it is almost coming to 10% PAT.
- Vijay Kumar:** But sir I am talking about EBITDA margin sir.
- G. Sravana Kumar:** You are talking about EBITDA?
- Vijay Kumar:** Yes, sir EBITDA margins.
- G. Sravana Kumar:** So it is mainly on account of own execution has gone up by 5% 6 months compared to the 6 months in the last financial year and one more thing once the Chhindwara project is there in MP their final bill was certified in which the unbilled quantity some variations in quantities have been taken. So there also profit has been taken these are the only two reasons for EBITDA improvement.
- Moderator:** Thank you. Next question is from the line of Shravan Shah from Dolat Capital. Please proceed.
- Shravan Shah:** Sir, this other operating income 4.3 crores is bonus for the Kerala project?
- G. Sravana Kumar:** No, it is all JV, JV's turnover has gone up that is the only no bonus nothing.

Shravan Shah: Okay. And are we going to book any bonus from the Kerala in the third quarter?

G. Sravana Kumar: NO

Shravan Shah: No, I am saying are we going to book any bonus from the Kerala project in third quarter?

G. Sravana Kumar: No, because bonus has to be paid for full length anyway 16th October we have received the Provisional Certificate for 100% completion the Final Certificate was issued on 31st October so what is there for one month - 15 days noting.

Shravan Shah: Okay. So once again on this top-line front this FY16 are we targeting 800 crore top-line?

G. Sravana Kumar: Yes, it is flat only like during the last year it will be.

Shravan Shah: Okay. And in FY17 how much are we targeting 1,300-1,400 crores or higher than that?

G. Sravana Kumar: I think somewhere I think 1,200 to 1,250.

Shravan Shah: Okay, 1,200 to 1,250. So any specific reason because even now once all the projects will be starting execution in full phase so in 2016 are we seeing some kind of issue in any of the projects because even if we take 3,600 crores or 2.5 years the execution period then also close to 1,400-1,450 crore is we can...

G. Sravana Kumar: See these Tamil Nadu projects are also three years to three and half years tenure all are State Government projects.

Shravan Shah: Okay. And sir, what is the CAPEX in the first-half and what is our Plan...

G. Sravana Kumar: 30 crores CAPEX is there.

Shravan Shah: Okay. And for the second-half how much are we looking at?

G. Sravana Kumar: Another 15 crores maximum.

Shravan Shah: Okay. And sir, any specific reason for our trade receivable has gone significantly down?

G. Sravana Kumar: I think you must be comparing with March figures no?

Shravan Shah: Yes, close to 100 crore has been realised

G. Sravana Kumar: Kerala BOT which we are doing—EPC basis , receivable was to the tune of almost 50 crores - 55 crores they have been realized in the first quarter itself apart from that one more project road project in Andhra, there were receivables to the tune of 25 crores that also has been received these two were the major things that have been realized ...

- Shravan Shah:** Okay. And you said that in terms of the EBITDA margins for the full year we will be looking at close to 15% -16% or 17%.
- G. Sravana Kumar:** This year, 15%.
- Shravan Shah:** Okay, but in FY17 it will be close to 15%.
- G. Sravana Kumar:** It will be 13%-14% range
- Shravan Shah:** Okay. And sir, Mr. Reddy sir if you can quantify the total bids which we have bided till today and which in terms of the amount also which we are likely to be bid I mean you have said the number of projects in Bihar, Jharkhand, Karnataka. In Karnataka you said three project of 800 crores to 1,200 crores but on an overall basis how much amount we have bided till date and how much are we going to bid in next couple of months...
- K. Jalandhar Reddy:** We have done bids on 2,000 crores worth of contract but now are going to bid in Karnataka three projects are there all three we are planning to bid and we will try our luck again. We will also put bids in Bihar, there are six bids to seven bids that we are focusing.
- Shravan Shah:** In this amount how much that six bids - seven bids in Bihar?
- K. Jalandhar Reddy:** Bihar everything is about 500 plus, I think now I am not looking anything below 500 except for the flyovers and the structural projects rest all above road projects all above 500 only we are trying to bid.
- Shravan Shah:** And sir, is there any project which is coming up on cement or all are in bitumen only?
- K. Jalandhar Reddy:** Now whatever it is coming sir, all the bids are belonging to cement concrete road, sir.
- Shravan Shah:** Okay, from now but whatever till date it was on the bitumen?
- K. Jalandhar Reddy:** What we have got all bitumen for this project.
- Shravan Shah:** But now even the NHAI and the state both are on the cement?
- K. Jalandhar Reddy:** Yes, sir.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please proceed.
- Nitin Arora:** Sir just again press on the same question on the order intake, we had the order book as per your presentation in the last quarter Q1 about 3,540 crores. So in this quarter we ended at around 3664 crores that implies and order intake of about 340 crores for Q2. Can you just help us reconcile that number?

- G. Sravana Kumar:** Actually see 255 crores one order has been received whenever bills come or certified there is some escalation variations all we have to take into consideration. If I we consider major maintenance we did for one SPV that is also we have to take into consideration.
- Nitin Arora:** So rest I should attribute to some escalation or the deletion part?
- G. Sravana Kumar:** Yes.
- Nitin Arora:** Fair enough, sir. Sir in the quarterly results have we recognized any toll revenue from Walayar Project?
- G. Sravana Kumar:** No.
- Nitin Arora:** Not yet. Can you give us sense what is the current toll collection there?
- G. Sravana Kumar:** About 10 lakhs to 11 lakhs a day now we are getting
- Nitin Arora:** Okay. And that is how much is variation and what project we bid at? What traffic we bid at?
- G. Sravana Kumar:** Cemented was the board 18 lakhs a day for full length.
- K. Jalandhar Reddy:** I think this is the rising season so the traffic is too less but I think after 100% collection what we have started recently a week ago we have started for 100% collection I think average would be we are expecting that average could be about 12.5 lakhs per day to something and the seasonal factor anyhow we will be knowing after one months to two months size because still even today there are rains and all going on in the rainy season it is very difficult to predict what is coming in so, let us wait for another three months and judge what is going to happen.
- Nitin Arora:** Sure, sir. And sir my recognition will happen in my console accounts right, not in the standalone quarterly numbers?
- G. Sravana Kumar:** Exactly, it comes all.
- Nitin Arora:** Now, when you said the total bids apart from Karnataka and Bihar when you said in the starting about 2,000 crores that attributes to Jharkhand then? You said Karnataka 800 crores to 1,000 crores, three packages, Bihar you said seven bids above 500 crores and then you said about 2,000 crores worth of bids we have already submitted so, is that attributing to Jharkhand?
- K. Jalandhar Reddy:** No, sir actually that is all just in the pipeline we have bided, that is it. It is not that we have won the cases or something.
- Nitin Arora:** Okay. And sir in terms of your project in Bihar the BOT project when you said 20 crore is your equity requirement that is your share?

- K. Jalandhar Reddy:** Yes, our share only.
- Nitin Arora:** Okay. And that in how much timeframe you are going to submit in that? Invest in that?
- K. Jalandhar Reddy:** I think another three months to four months' time.
- Nitin Arora:** Three months to four months' time. Sir, in terms of your margins even if I look at a JV if I remove the other operating part I am still attributed to about 16% plus kind of margin in this quarter. Can you quantify two reasons to three reasons what it attributes to this kind of a margin number and when you say that my FY17 my margin should come in around 13%-14% what is that why, you are toning down the margin side this is just because you have had this BOT with you in this year or any other particular reason?
- G. Sravana Kumar:** That is also one among the reason but this 25.5 crores Income-Tax Refund has been received.
- Nitin Arora:** No, sir I am talking about EBITDA margin.
- G. Sravana Kumar:** EBITDA?
- Nitin Arora:** Yes.
- G. Sravana Kumar:** Mainly on account of one execution improvement by 5% and one more project in Madhya Pradesh it was totally completed and unbilled quantities were billed in the final bill apart from some variations and all. Again the cost has already been incurred so in that last bill whatever it has come a little amount of expenditure there balance was booked as profit for the final bill.
- K. Jalandhar Reddy:** Sir, actually what is happening you might be knowing that diesel between prices have also come down so there is some a little bit pass over but we cannot expect this every time, right.
- Nitin Arora:** Sir, I was wondering because your sub-contracting cost is going higher despite that I am doing good margins.
- K. Jalandhar Reddy:** And all the cost with the fresh rates only.
- G. Sravana Kumar:** PAT margin expenses have gone up because of this major maintenance which we did for out BOT project SPV which we received from the SPV and in turn we have passed on to somebody else. So it was almost 24 crores subcontract expenditure.
- Nitin Arora:** Because of that MMR?
- G. Sravana Kumar:** Yes, MMR, exactly.
- Nitin Arora:** Okay. And sir, what was our current maturities at this point in time?

- G. Sravana Kumar:** Current maturities one second, about 3.52 crores.
- Nitin Arora:** And sir, my last question would be what is your sense because I think we discussed in detail in the last quarterly call about the hybrid model. So can you tell us that how you are finding at this point because there have been changes which the NHAI is doing currently on it is it that lucrative that we can take it going forward because you mentioned in the call...
- K. Jalandhar Reddy:** Yes, I got it actually I am sorry, what is happening right now is the changes whatever they come out then we can think of it if it is lucrative second thing the annuities and all now on the long-term there have been a lot of implications which are coming and generally right now after looking at this model and all generally right now I think it is a little bit risky because how much ever the margin they give or even the bidding goes very liberal also tomorrow what is happening is that end of the day your margins are just like EPC margins only. Further you will put in your equity and wait for another 14 years to come down and you never know what sort of return would come to you. However, they are passing some...
- Nitin Arora:** You mean to say in the later of year the annuity can also even come down I mean with respect to the discounting rate so your IRR can down or even more than just the bond yield part that is stopping you.
- K. Jalandhar Reddy:** That is what also little bit bothering and frankly sir what is happening like if you see our network size about (+600) we go and put money into maybe what is the cash froth cash what we will be having that is equal to our working capital. We will not be having more than the cash whatever our work has got till limit charge. So if I put everything into it and again further comes the business and go for further debt and all I think there is a now even debt cost is also a little bit cheaper so, people will bid at the same cost and they end up with very less margins. That is what I feel.
- Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from Elara Capital. Please proceed.
- Adhidev Chattopadhyay:** Sir, just want to clarify the quarter sir for this MP project you said additional revenues were build so, could you give us the broad number on that how many crores was it?
- G. Sravana Kumar:** The final bill was about 12 crores in which expenditure was totally 5 crores to 6 crores.
- Adhidev Chattopadhyay:** Okay. So you entire thing as accrued to top-line in the 12 crores.
- G. Sravana Kumar:** That was the final bill.
- Adhidev Chattopadhyay:** Okay. And sir this captive project so you have booked all the revenues up to September or again from October you have booked the final revenues again in the Walayar Project?
- G. Sravana Kumar:** Sir, 20 crores - 25 crores is left out that is all.

- Adhidev Chattopadhyay:** Okay. And sir, in preceding quarter how much did we book in Q2 from this project roughly?
- G. Sravana Kumar:** Q2 about 50 crores.
- Adhidev Chattopadhyay:** Around 50 crores from here, okay. And sir, just continuing now this obviously sitting at loans and advances, right the equity we have given to this project.
- G. Sravana Kumar:** Yes.
- Adhidev Chattopadhyay:** Okay. So sir, could you just clarify how the account from now and all the toll revenue if you will collect how will the cash flows work I means will we get some share from the toll I mean will the standalone entity will get anything from this project or everything will go to repayment of debt?
- G. Sravana Kumar:** It will go to escrow account only. First all the debts servicing has to be done. So at this stage , nothing will come to the holding company.
- Adhidev Chattopadhyay:** Okay. So then on this BOT project and other one you have taken in Bihar so, any plans to securitize and like exit these projects or you want to intend to keep them on the books now?
- K. Jalandhar Reddy:** Yes, sir but we will wait for a little appropriate time. Now the WPI is plucking very negative today so further at this point of time if you go for sales and all I think it is not a right thing. However, it is not likely to be same for coming years. Definitely we would like to wait for two years and then look at for selling these projects or securitizing this project.
- Adhidev Chattopadhyay:** Okay, sir. Sir next question is on I understand we were planning to subcontract few projects in MP the one shared projects in Tamil Nadu so what is the progress like when do we expect the work to start over there?
- K. Jalandhar Reddy:** Maybe by December to March we are expecting very little progress but that should be some progress from those projects as a planning of that actually according to the schedule they have to contribute about 100 crores turnover in coming four months. But there are some delays that are happening due to State Government issues means I mean to say some utility shifting and some sort of land acquisition issues and all that.
- Adhidev Chattopadhyay:** Right. And sir, finally touching on this Kazhakootam-Mukkola Project now as just reading press article that we have got only four kilometers of the total stretch in our position till date. So any clarity when will the balance land will be transferred to us for us to commence?
- K. Jalandhar Reddy:** Yes, actually there what is happening there is community Environmental Clearance Committee which is conduct by the State Government and that is being headed by the some IAS Officers and all. So we have discussed in the first time as trial basis they gave to four kilometers to clear it out. So subsequently another ten kilometers now they are ready to release in next week so, slowly it is not a single phase they want to give out even in the public interest they want to

look at and issue. So currently what we need told that this is an important area where we want to work so they have released that much portion.

Adhidev Chattopadhyay: Okay. Sir, and just containing in that sir I believe like the appointed it was in June 15 and we have 24 ones to complete that project. So let us say now it already start work let us say by next month so the completion date would remain same I do you expansion or how does it work?

K. Jalandhar Reddy: Sir actually expansion is required that is given post discussion because as you rightly said that tree cutting itself is not cleared so I cannot move a single inch there. So even for my survey clarity I need that tree cutting because I cannot see the other end because of the tree. So these are all issues which we are facing. So if you really want extension of time it is quite possible because it comes contingencies and force majeure so definitely they will give you the extension. However for a formal this thing we have already return letter enough letters are there and proof is also there. So that is not a problem that I get extension but we will as our company track record are our own interest that our rates and everything will go up on the expansion. So we want to try to complete we will try to complete well within the time that is what our plan is.

Adhidev Chattopadhyay: Okay. And sir just last one housekeeping question. Our trade receivables came down by around 100 crores so, I just missed out from which project should we get back the money 100 crores?

G. Sravana Kumar: It is Kerala BOT project, one road projects in AP.

Adhidev Chattopadhyay: In UP?

G. Sravana Kumar: No, one road project in AP to the tune of 25 crores and about 50 crores to 60 crores from Kerala BOT.

Adhidev Chattopadhyay: Okay, Kerala BOT, okay.

Moderator: Thank you. The next question is from the line of Ravi Naredi, he is an Individual Investor. Please proceed.

Ravi Naredi: Sir in toll base or EPC project how much ROC you plan when you bid for the project?

K. Jalandhar Reddy: Sir it is not so much ROC we plan but generally if we look at the EPC contracts then we generally expect about say net profit about profit after-tax would be at 5% to 6% and in BOTs as you know if I am even aiming 10% margins also it is not so great. Because always I have to end up putting the equity and wait for 12 years even whatever I get good margin that is not a big deal. It is better to expect more out of BOT projects because your equity is stuck for a lot of... So you need money to survive so, you need to take good margins out of the EPC that is what my advice and generally we go with that.

- Ravi Naredi:** Okay. And sir, whatever project awarded by government in road sector what is ratio between toll base and EPC mode?
- K. Jalandhar Reddy:** It is not ratio and all it is just like the policies what they are making it is one politically driven thing generally what happens what they are collecting right now that petrol cess you all know that on Rs.2 they are collecting and they are funding their road projects what they paying and suddenly they now started with saying we will come out with this hybrid model. But there was a new chairman who has come in he has advised to ministry not to kill the EPC mode paralllly go half and half 50-50 like that in hybrid and this one because you never know getting succeeding in hybrid and projects also mixed up so that there is more success into EPC rather than in BOTs so his advice was that. You will have to see what sort of political call will be taken on all this.
- Ravi Naredi:** In absence of land bill passed in parliament how much hurdles are coming in awarding the road projects?
- K. Jalandhar Reddy:** Sir, actually they are now going whatever the policy that is available with them. I think that is yielding results we have this thing there is no problem right now.
- Ravi Naredi:** Okay, right now there is no problem.
- K. Jalandhar Reddy:** No, problem because people are getting more money so they are happy to part away with the available policy and even governments are happy to go ahead with it. Actually sir that main change that what they want to do in the land acquisition will be that 80% people shall agree to it or 60% people shall agree to it but that they want to eliminate because none of the land owners want to part away with their land that is reason. Because moment that they get a bigger road they get the valuations up. So they just to real estate the issues because their real estate values are going up so they never like to part away so, that clause they want to release and somehow some cost changes and all they are proposing that is a different thing but however, today I think that we are able to do
- Moderator:** Thank you. The next question is from the line of Amber Singhania from Asian Markets Securities. Please proceed.
- Amber Singhania:** Couple of things sir one you mentioned about the one year termination policy which NHAI has implemented recently but most of the cases we see generally that execution is getting delayed or the start of the project is getting delayed because of the issues like land has not been provided and other things related to the NHAI side only. In that case do you think it is practically feasible to terminate the contract in a one year if they have not started and how the scenario will work out given the current context?
- K. Jalandhar Reddy:** Sir actually the current contracts what they will do they will award the project LOI's are issued and they do agreement but before agreement they need 90% plan to be available, it is 90% even 80%-85%-75% also people are accepting it because they have the hope that they can

do it. Even 50%-60% is there people are not willing to take it out because future they may face the problem. As you rightly said in one year time they want to wait and terminate the project it is good. See if I log onto a project which is not even started for one year and still I am suppose to lag on and I continue the project after one year my overheads everything will go up sir one year is not a small year that we stated at the end. That means if you have given me two and half years time I have to complete the project in three and half years. Imagine what would be my share if I login if I am supposed to do this project up to three and half years. My overheads and everything will go up for me. And even the cost are not same there is escalation to the material and everything; however, there is escalation formulate for everything is not fairly paid in the escalation formula. It is beneficial for the factors that they get terminated after one year.

Amber Singhanian: I agree sir. So is it fair to assume that even if there is any like you know from the NHAI side if you have to done the agreement then after that one year you have to start otherwise liabilities will be on your part and the contract will get...

K. Jalandhar Reddy: Yes, you may claim whatever but it is better to get it terminated.

Amber Singhanian: Okay. Secondly, sir I wanted to understand again on the tax refund part which we have provided so this is basically because we have provided more than 30% tax during the FY08 to FY12 and that is why this refund has come in this will not be coming in the future because we have already provided MAT after '13.

K. Jalandhar Reddy: Exactly.

Amber Singhanian: And what will be the cash flow treatments because I believe we have already provided full tax of (+30%) on the cash flow side so, that money will come in and that will come in along interest component on that, or will it happen for the period from FY13 to 2015?

K. Jalandhar Reddy: It just comes with interest only.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please proceed.

Vibhor Singhal: Sir, I will further deal with the question that Amber had asked previously about the tax refund. So just wanted to understand so, the tax refund that we have got in this quarter of around 25.5 crores - 25.8 crores that is on for the period FY09 to FY12 where we had actually provided for full tax instead of 80-IA benefit, am I right?

G. Sravana Kumar: Exactly.

Vibhor Singhal: Okay. So but from FY13 onwards since we have already provided where any is taking MAT into account even if we get that actually there only be a cash statement for that and there will be P&L entry for that, right?

G. Sravana Kumar: Exactly, you are right.

- Vibhor Singhal:** Right. And that amount you mentioned is around 60 crores?
- G. Sravana Kumar:** 60 crores, yes.
- Vibhor Singhal:** Right. So that would probably be a balance sheet adjustment that will happen.
- G. Sravana Kumar:** Yes.
- Vibhor Singhal:** Now, sir again I want to dwell with this I know I mean on multiple calls we have dwell on this point I mean the projects that we are executing and the projects on which we are claiming these 80-IA benefit are the regular EPC projects in the roads and irrigation segment and none of other EPC companies are actually availing this benefit. We have not only avail the benefit but we have also got a tax refund also from the government so, that definitely validates our stand that yes, we are entitled on this claim. I mean what is the difference in the nature of projects that we do and the other guys do and why is that they are not able to claim and we are claiming and getting a refund also?
- G. Sravana Kumar:** But many other companies are also claiming, KMC is claiming, Ramky has got the relief, NCC have got even Patel-KNR joint venture our own joint venture has got two years - three years back.
- Vibhor Singhal:** Sir but that is only in the BOT segment in the EPC segment.
- G. Sravana Kumar:** No.
- K. Jalandhar Reddy:** No, EPC also. We have got in EPC also.
- G. Sravana Kumar:** Ramky Infrastructure has got from the Assessing Officer itself relief.
- Vibhor Singhal:** Okay, sir. So let me revert that question, so how does the project qualify for an 80-IA benefit as compared to let us say non-compliant project so, if I am building a normal road project or highway project does it actually become an 80-IA benefit project?
- G. Sravana Kumar:** New facilities should come into existence.
- Vibhor Singhal:** Okay. So four lining to six lining project would not be an 80-IA benefit project does that mean sir?
- G. Sravana Kumar:** And the company should have entered into an agreement with the government. Private player developer is awarding work to you there you cannot claim.
- Vibhor Singhal:** Yes, for private developers of course we cannot have a claim. So sir would you be able to give an example let us from your own portfolio so, a project in which you can claim 80-IA benefit and a project you cannot claim an 80-IA benefit.

- G. Sravana Kumar:** Of course your cash contract is there where I do not know any design work and all, designs are given by the client. So I cannot claim in that.
- Vibhor Singhal:** Okay. So wherever we are actually doing the design work and all there is a new facility which is coming in along without contract with the government there we can claim an 80-IA benefit?
- G. Sravana Kumar:** Yes.
- Moderator:** Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please proceed.
- Parvez Akhtar:** Sir, just one question, sir, if you enumerate what were the projects which have contributed to execution in this quarter? I mean the major three project - four projects and the quantum of...
- G. Sravana Kumar:** Mainly Kerala one is that one which we are doing an EPC, next is one project in AP.
- Parvez Akhtar:** And sir, what will be the quantum of work done on the projects other than Kerala, the major two projects - three projects?
- G. Sravana Kumar:** The 50 crores has come from Kerala itself.
- Parvez Akhtar:** Okay. So now with the Kerala project we expect we will touch 900 crore top-line in the current year?
- G. Sravana Kumar:** Maybe 800 to 850 crores but it will be flat only like in the last year I think we do not expect to reach 900 crores also. It may be in the range of 850 crores like that, it will be flat only.
- Parvez Akhtar:** And sir also now with the BOT project getting completed all of our revenues will come from EPC project so, do we expect some increase in our working capital cycle going ahead or it will remain at the same level?
- G. Sravana Kumar:** Working capital cycle at the moment is not going up big because we are getting interest free mobilization advance for all the new EPC which we have got, eligible for almost 10% mobilization advance. So in this year we are not anticipating any increase in the working capital may be next year it may go up a little bit.
- Moderator:** Thank you. The next question is from the line of Devang Modi from Equirus Securities. Please proceed.
- Devang Modi:** Sir, out of the total EBITDA that we made of around 39 crores this year how much crores would be the impact of say the Chhindwara closure in the 5% project improvement that we got, how much will be the impact of that?
- G. Sravana Kumar:** Almost 5 crore is coming from Chhindwara itself a little 5% increase in the one execution that has contributed.

- Devang Modi:** That would be how much amount sir the 5% increase in execution?
- G. Sravana Kumar:** I can say it will be almost 2%.
- Devang Modi:** 2 crores, you are saying?
- G. Sravana Kumar:** 2% I am telling in EBITDA.
- Devang Modi:** 2% in EBITDA, okay. So roughly you are saying basically that 34 crores and another 2% that is roughly 30 crores would be the normalized EBITDA for the quarter.
- G. Sravana Kumar:** Yes.
- Devang Modi:** And sir when are we expecting to commission Muzaffarpur Barauni Project and start the toll over there?
- G. Sravana Kumar:** Most probably in March 2015, I think by this month end I think provisional COD is expected. COD for full length will be achieved by the end of March 2016.
- Devang Modi:** You are seeing provisional COD for 75% by this month.
- G. Sravana Kumar:** Yes.
- Devang Modi:** Okay, then another six months it will pass back before you get the final COD right, I mean between provision and final there will be a difference of six months?
- G. Sravana Kumar:** Yes.
- Devang Modi:** And sir, so basically if you get it provisions really right now you will be going for final COD sometime in May in next year.
- G. Sravana Kumar:** Yes, must be March or April. 2016
- Devang Modi:** And sir what further CAPEX will be required in FY17? You mentioned that you have already done 30 crores another 15 crores you are expecting to do in second-half so how much CAPEX will be required in FY17 per se?
- G. Sravana Kumar:** For the existing order book actually in this year I think another 15 crores - 20 crores that means it will be 50 crores and year-to-year if you see 25 crores CAPEX is required for maintenance itself. Any additional new orders are received then only at least 8% to 10% of the total order value has to be invested in the CAPEX.
- Moderator:** Thank you. The next question is from the line of Ankita Bora from Batlivala & Karani Securities. Please proceed.

- Ankita Bora:** Sir, my question was on the new order pipeline that you have highlighted so correct me if I am wrong we do not have much presence in Jharkhand and Bihar and Uttarakhand geographies as of now. The reason why we are going aggressive in these geographies with 2,000 crores of bid pipeline well we already have a very healthy order backlog as of now.
- K. Jalandhar Reddy:** Yes, right question ma'am. Actually what we are of the opinion is that okay, these areas are already neglected by many people so if I get a good margin that is what the trial is and I have not gone anything aggressive in this I very liberally quoted what I got I have quoted. I am not sure of winning it that's what I am saying.
- Ankita Bora:** Okay. Well I mean putting a bid idea is to get the project.
- K. Jalandhar Reddy:** When I travel onto a new areas for bid and all definitely I will see all the geography issues, potentially winds and everything then when we will address the bid. So definitely all the take we hope that after studying everything only then we have quoted the bid so, hopefully actually because there are number of bidders are more. More than 10 people in these three bids what I was talking about so, I am not sure of winning this deal.
- Ankita Bora:** And if in case if we get these projects will we be doing it on our own or we will be subcontract?
- K. Jalandhar Reddy:** Perfectly on our own because these all are above 500 crores project so definitely we will do on our own.
- Ankita Bora:** Okay. And sir for Sravana sir, for first-half of this year I mean total tax if I count is almost (-20) crores so how much number do we expect for the full year FY16 considering we are also expecting some more refunds to come in from the second-half of this year?
- G. Sravana Kumar:** MAT anyway we have to consider 21% that needs to be considered.
- Ankita Bora:** But so total tax rate for FY16 that is what I wanted to know.
- G. Sravana Kumar:** Total tax rate about 11% to 12%.
- Ankita Bora:** For 2016?
- G. Sravana Kumar:** Yes.
- Ankita Bora:** And 2017?
- G. Sravana Kumar:** 2017 again MAT on it MAT.
- Moderator:** Thank you. Next question is a follow-up question from the line of Amber Singhania from Asian Markets Securities. Please proceed.

- Amber Singhania:** Just two small question from my side do we like as you mentioned that the bitumen prices and other prices have also come off. Do we expect any benefit which can trickle down to the newer projects which we have got in Q1?
- K. Jalandhar Reddy:** Yes, actually sir Q1 also these rates are not so greatly varied I think there is only Rs.1 - Rs.2 variation in diesel and all bitumen I think Rs.1,000 to Rs.2,000 difference was there. So there is no great difference that is happening.
- Amber Singhania:** But we will get that benefit right?
- K. Jalandhar Reddy:** Yes, whatever it is, fair enough. Generally another year there is negative variation also because these are all EPC contracts there the negative variation will also go. WPI is going negative even you may get negative billing to that extent whatever the percentages what they are calculating.
- Amber Singhania:** Okay. And secondly sir, just on the pipeline front as you mentioned that you have already bid for 2,000 crores of project and you have an appetite of 500 crores to 1,000 crores so what if in case suppose you win 1,000 crores from out of these 2,000 crores of bids, would we not submit bids for Karnataka and Bihar projects or what will be your thought process when you already win 1,000 crores worth of new projects?
- K. Jalandhar Reddy:** Yes, once we have enough jobs in hand you do not need your appetite is full let us not expand beyond your appetite, right.
- Amber Singhania:** But Karnataka is where we have already executed.
- K. Jalandhar Reddy:** Where our interest is there but I think it is little more that I get a bid this year because I was very comfortable in quoting the bid... I am very sure there is almost 11 to 12 bidders are there in this. As I was rightly saying that I am not sure of it.
- Amber Singhania:** Okay, let me put the question in a different way. Today we have 3,600 crores we get one more 1,000 crores so that is 4,600 crores. what else we will need if we want to grow in terms of order book size beyond 5,000 crores or let us say 6,000 crores what is that which we need to add in our current profile be it bandwidth, be it other...
- K. Jalandhar Reddy:** CAPEX, man power, everything sir that is double year establishment.
- Amber Singhania:** So are we ready for doing that as of now or we will let it go?
- K. Jalandhar Reddy:** Sir frankly speaking we always believe in gradual growth only. Second thing is that if you expand beyond the control. How would be the control, so we want to expand in a controlled manner how we can...see actually our company has learned has learned some sort of discipline in the industry today there are work I will expand no problem I can do it. But tomorrow there is no work so I will have to shut down. And all my equipment will start away eating my margins right because idle equipments will always give you minus figures so it should be very

sure of having job continuing as I complete if I take a set of equipments whose life is about five years definitely I should have at least five years continuous order flow without break.

Amber Singhanian: Sir would not that mean that in anticipation of a slowdown couple of year down the line we are forgoing the opportunity of high growth in current scenario?

K. Jalandhar Reddy: Not that, actually frankly speaking we are a company who is making say 1,000 crores - 900 crores turnover. Now if you look at our target in 2016-2017 we are jumping by (+1,200) not less than that. And next year would be around (+14). Is that growth not enough?

Amber Singhanian: That is fine. The only thing what I was seeing in last five years...

K. Jalandhar Reddy: Okay. As you are saying there are opportunities and all that but today the sort of aggression is there in the market better not to leave the project. This is what happening in the market. Last time I quote an example there was a bid between Warangal and Yadagirigutta so what happened that bid about the cost NHAI estimate is 1,140 crores and generally we are home town, we have home town there and my father was very passionate to do that project so we have worked out to 1,029 till we have done 100 crores down to the bid but in fact the bid was sold at 897 crores. We have not expected so much aggression in the market. It is very unhealthy situation what we have seen. So sir here I would have got that 1,000 crores I would have make good this thing but not like regular project because we have cut down our margins because we had interest in doing that project and we have location wise advantage also that might have fetched us 1%-2% more margins that is a different story. But the thing is that we do not have that good margin that I can pass on I can do a project at 897 crores. Even someone gives me back to back at the same price I cannot do that project. Having the location advantage and having the home town and home town means we are born and brought up there and today I went Assam and worked on few projects and successfully completed and came out. So if you look at my situation my home town work how I would have been doing it. I would have very aggressively do the project while doing the project also I would have been very aggressive because I want to show my name and everything. So such an aggression is there in the market so we cannot expect.

Amber Singhanian: Okay. Sir, my last question on the margin front I understand that the new projects which we have got we have got when we had a low order book and that is why we are guiding around 13% margin in FY17 as such. So would it be fair to assume that the new projects which you are bidding these are on a better margins higher than 15% or 14% because we are now sitting on a healthy order book.

K. Jalandhar Reddy: Yes, sir, upcoming should be about (+1%) (+-2%) more than the old ones. Even I can expect more but the market may not allow me to get the project that is also important.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Reddy for closing remarks. Over to you, sir.

- K. Jalandhar Reddy:** Thank you, everyone for participating in our second quarter ending conference call. We have uploaded the presentation of our company on the website. In case of further queries you may get in touch with Strategic Growth Advisors or Investor Relation Advisor or feel free to get in touch with us. Thank you very much for the participation.
- G. Sravana Kumar:** Thank you.
- Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of KNR Constructions Limited, that concludes this conference call. Thank you for joining us and you may disconnect your lines now.