



KNR Constructions Limited.

Date: 16th December 2019

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To
Dept. of Corporate Services,
BSE Limited
P J Towers, Dalal Street,
Fort, MUMBAI - 400001

To
National Stock Exchange of India Limited
"Exchange Plaza",
Bandra Kurla Complex,
Bandra (E), MUMBAI - 400051

BSE Code: 532942

NSE Code: KNRCON

Sir,

Sub: - Transcript of Conference Call Q2 & H1 FY 2020

Ref: - Listing Regulations

With reference to the above please find attached the Earnings Call Transcript for the Q2 & H1 FY 2020, this for your information and records.

Yours truly,
for KNR Constructions Limited

M. V. Venkata Rao

M. V. VENKATA RAO
Company Secretary



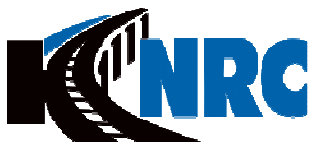


“KNR Constructions Limited
Q2 FY2020 Earnings Conference Call”

November 15, 2019



**MANAGEMENT: MR. S. VAIKUNTANATHAN - VICE PRESIDENT
(FINANCE) - KNR CONSTRUCTIONS LIMITED
MR. K. VENKATA RAM RAO - GENERAL MANAGER
(FINANCE) - KNR CONSTRUCTIONS LIMITED
STRATEGIC GROWTH ADVISORS PRIVATE LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the KNR Construction Limited Q2 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this date. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal and operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Mr. S. Vaikuntanathan, Vice President Finance, KNR Constructions Limited. Thank you and over to you Sir!

S. Vaikuntanathan: Good afternoon friends. I welcome you all on our earnings call for quarter and half year ended September 30, 2019. Along with me I have Mr. K. Venkata ram Rao, General Manager (Finance) Accounts and Strategic Growth Advisors and our Investor Relations Advisors.

I will start with a brief on the key updates or industry and then we will discuss some of the company's performance.

The Roads and highways sectors have continued to witness a muted performance for the first half of financial year 2019-20. The awarding activity has remained significantly low due to issues related for land acquisition and funding. The projects that have already been awarded earlier are getting delayed as the authorities are not able to give the appointed date on account of non-availability of land. However, we expect good orders to come from December 2019 onwards and we remain optimistic that NHAI could award around 6,000 kilometers of projects for the financial year.

NHAI has created a pipeline of projects worth Rs.7 to Rs.8 lakhs Crores to be awarded over the next three years as a part of government's push to create a national infrastructure pipeline to make India a \$5 trillion economy over the next five years. To achieve this target NHAI is firming up a strategy to prioritize land acquisition for projects that are set to be awarded over the next two to three years, which will lead to a faster execution of economically viable road projects. NHAI has also begun the process of prioritizing projects based on the financial viability.

Coming to the funding side apart from the budget allocation NHAI has plans to raise extra budget resources of around Rs.75000 Crores this year. Additionally NHAI has invited bids



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for fourth bundle of TOT projects and are looking to raise around Rs.4,200 Crores. MoRTH also asked the Finance Ministry to increase their outlay so more than Rs.1 lakh Crores as compared to an allocated amount of Rs.83,000 Crores during the last budget. All these resources will help the authorities to award more projects in the coming quarter and expedite highway construction.

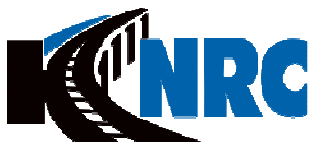
Now coming to the key updates on the company

Recently, one of our HAM projects, which is Meensurutti to Chidambaram has been notified by NHAI that the concession agreement of the said project has been deemed to be terminated with effect from April 11, 2019 as per clause 4.5 of the concession agreement as NHAI was unable to provide us with the required 80% land due to ongoing disputes with land owners. As this project is terminated, our EPC contract and agreement with Cube Highways for this project is also considered to be under deemed termination.

Apart of this project, we have a portfolio of nine projects of which 5 are HAM projects, 2 are BOT toll projects and two our BOT annuity projects. We have already received appointed days for three HAM projects and execution of these projects are in full swing. The percentage of physical progress as on September 30, 2019 for these three HAM projects is as follows, Chittoor to Mallavaram is 27.5%, Ramsanpalle to Mangalore is 21.4% and Trichy to Kallagam is 17.5%.

With regards to the KSHIP HAM project, we have already executed financial closure documents and they have been submitted to the authority. We expect to receive appointed date by end of the current quarter. For our fifth HAM Project worth Rs. 920 Crores BPC in the state of Tamil Nadu, we are yet to sign the concession agreement as NHAI is expediting 80% of right-of-way before proceeding with signing up. We already invested Rs.175.42 Crores as equity across all of our HAM projects. We have given all the details of HAM projects on slide #26 of our investor presentation.

As you all know, we have already signed share purchase agreement with Cube Highways for our three HAM projects that is Trichy to Kallagam, Chittoor to Mallavaram and Ramsanpalle to Mangalore projects for disinvestment of our stake. As per the agreement, we will completely sell these 3 projects after COD plus two years. We expect an aggregate investment of Rs.175.3 Crores in these projects which equals to 51% of the projects equity requirement. Against our investment of Rs.175.3 Crores we will receive approximately Rs.321.5 Crores as per the share purchase agreement.



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The final amount may undergo some changes at the time of COD. Cube will invest 49% equity after 90% of ROW is achieved during construction in each of these three projects. This deal reduces equity investment for the company by 50% in addition once the project achieves COD, 49% of KNR's stake will be sold to CUBE and balance after mandatory lock in period of two years. The deal ensures that the HAM projects now operate like deferred EPC contracts and the company would be able to free up its balance sheet and take new projects in the future.

Update on BOT projects,

Our 100% owned Walayar-Vadakkanchery BOT toll projects is witnessing improved average toll collection of 18.6 lakhs per day. We are in the process of evaluating various options to monetize this project within this financial year. Our Bihar project that is Muzaffarpur-Barauni project has improved on a consistent basis and we are collecting average toll of Rs.22.65 lakh per day currently.

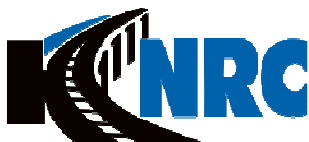
Coming to EPC projects

The company has recently received LOA for irrigation project of Rs.850 Crores from Mega Engineering and Infrastructure Limited. We have a total order book of Rs.5,147 Crores out of which EPC components of three HAM projects for which appointed data has been received is Rs.2,234 Crores, which is 43%. Out of the remaining order book central government projects contribute Rs.571 Crores, which is 11% and state government projects contribute Rs.2,342 Crores, which is 46%.

In terms of order books breakup road continues Rs.3,296 Crores that is 64% of total order and irrigation projects comes to Rs.1,850 Crores that is 36% of total order book. Our combined order book including KSHIP HAM projects and NHAI HAM projects is Tamil Nadu that have not been included in the order book position is Rs.6,682 Crores as on September 30, 2019.

We expect a large number of projects to be bid out in the current financial year and we are planning an order inflow of approximately Rs.1000 to Rs.1500 Crores the remaining part of the financial area.

Now I would request Mr. K. Venkatram Rao, our GM Finance & Accounts to present the results for the quarter and half-year ended September 2019. Over to Mr. Venkatram!



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K. Venkatram Rao: Thank you Sir. I hope you had gone through our results and the presentation that we are circulated in uploaded on our website. Now, I will present the standalone results for the quarter ended September 30, 2019.

The total revenue is stood at Rs.546.2 Crores in Q2 FY20 indicating a growth of 31% year-on-year. During Q2 FY20 the company had received an arbitration claim in one of its projects amounting to Rs.57.2 Crores including interest of Rs.21.8 Crores. Our EBITDA for Q2 FY20 stood at Rs.125.8 Crores indicating a growth of 51% year-on-year with EBITDA margin of 23%, which grew by 300 basis points year-on-year. Profit after tax for Q2 FY20 is Rs.70.1 Crores with a margin of 12.8%.

Coming to results for the half-year and September 30, 2019 on standalone basis the total revenue stood at Rs.1,010.8 Crores in H1 FY20 indicating a growth of 4% year-on-year. Our EBITDA for H1 FY20 stood at Rs.215.8 Crores indicating a growth of 12% year-on-year with EBITDA margin of 21.3%. Profit after tax for H1 FY20 is Rs.117.8 Crores with a margin of 11.7%. On the balance sheet side as on September 30, 2019 the debt on Standalone basis is Rs.316 Crores including promoter loan up to Rs.208 Crores and the debt to equity stand at 0.2 times.

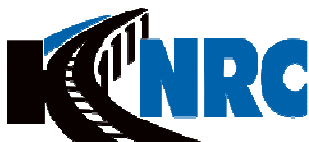
Moving on the consolidated performance for quarter ended September 30, 2019 the total revenue is stood at Rs.587.1 Crores in Q2 FY20 indicating a growth of 30% year-on-year. Our EBITDA Q2 FY20 stood at Rs.158.2 Crores indicating a growth of 53% year-on-year with EBITDA margin of 27%. The profit after tax for Q2 FY20 is Rs.83.1 Crores with a margin of 14%.

Coming to the results for half-year ending September 30, 2019 the total revenue is stood at Rs.1,117.8 Crores in H1 FY20 indicating a growth of 7% year-on-year. Our EBITDA for H1 FY20 stood at Rs.274.1 Crores indicating a growth of 15% year-on-year with EBITDA margin of 24.5%. Profit after tax for H1 FY20 is Rs.127.6 Crores with margin of 11.4%.

On the balance sheet side, As on September 30, 2019 the debt on consolidated basis of Rs.764 Crores including promoter loan of Rs.208 Crores and debt to equity stands at 0.52 times.

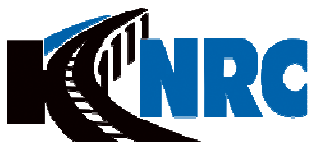
With this we will now open the floor for question and answer.

Moderator: Thank you very much Sir. We had the first question from the line of Priyanka Biswas from Nomura Securities. Please go ahead.



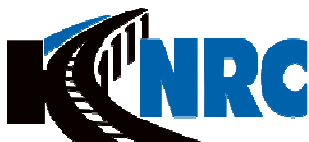
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- Priyankar Biswas:** Good afternoon Sir. My first question is regarding the tax rate guidance. So, would you be following the new corporate tax rate regime or would you be following the older regime?
- K. Venkatram Rao:** As of now, we have worked out, we will still follow the old regime only because still we have on books around Rs.66 Crores of MAT credit that we want to utilize. So until this is utilized we will follow this current regime only.
- Priyankar Biswas:** So, you hope that it will be utilized in this year itself entirely or will it happen later?
- K. Venkatram Rao:** It will take further two years Sir.
- Priyankar Biswas:** Okay, so from FY2022 maybe you would get to that?
- K. Venkatram Rao:** We will start using the new regime.
- Priyankar Biswas:** SIR one thing I wanted outstanding order book for some key project so like Madurai Ramanathapuram, if anything is left in that in Trivandrum bypass Pollachi-Coimbatore and then Salem flyover.
- K. Venkatram Rao:** Sir in Trivandrum order book is around Rs.70 Crores. In respect of Madurai, it is almost over actually and for Pollachi it is around Rs.80 Crores.
- Priyankar Biswas:** Yes Salem flyover?
- K. Venkatram Rao:** Salem flyover is Rs.53 Crores.
- Priyankar Biswas:** Sir in the Pollachi road project as there has been any change in scope because last quarter if I remember outstanding order book was Rs.55 Crores in the Pollachi-Coimbatore so this has gone up so that is why?
- K. Venkatram Rao:** In this quarter, we have received around Rs.38 Crores of change of scope in this project
- Priyankar Biswas:** That is all from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities Limited. Please go ahead.
- Parikshit Kandpal:** Congratulations on a good set of numbers. What was the contribution of irrigation projects two irrigations projects revenues in the first-half?



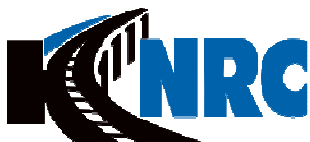
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- K. Venkatram Rao:** This irrigation project contribution revenue is around Rs.95 Crores in this quarter Sir.
- Parikshit Kandpal:** From which project?
- K. Venkatram Rao:** It is around 18%. This consists of KP Sagar, the new project Mallana sagar and Yedula, basically these three products.
- Parikshit Kandpal:** The two new irrigation projects one from Megha and other from Navyuga what was the contribution from these projects?
- K. Venkatram Rao:** For Megha it is around Rs.43 Crores Sir, for Navyuga it is Rs.6 Crores.
- Parikshit Kandpal:** Navyuga project is not moving because you got it earlier ?
- K. Venkatram Rao:** We are moving slow on this project because there are some land issues. We are expecting that it may start in the next two months itself. The Mallanna Sagar i.e. Megha project is executing very well.
- Parikshit Kandpal:** Navayuga site has demobilized as of now, work has stopped there?
- K. Venkatram Rao:** No work has not stopped we are doing it at a very slow pace.
- Parikshit Kandpal:** And what kind of receivables for pending these two projects, from Megha what kind of receivables will be pending and Navayuga?
- K. Venkatram Rao:** Sir, nothing is pending as of today. Whatever receivables were pending from the megha project we have received it today only. So there is nothing pending in the Megha project. Navayuga, we had not done much work, we have not raised the bill yet.
- Parikshit Kandpal:** Sir Megha Engineering has taken few more irrigation projects in Polavaram so are we looking to partner them?
- S. Vaikuntanathan:** No.
- K. Venkatram Rao:** Sir, this projects that we have got, we have received instructions from the Government of Telangana that is why we have taken this project, so definitely we are not looking to directly take projects and partner with them.
- Parikshit Kandpal:** We are not looking at to add any more irrigation projects?



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- S. Vaikuntanathan:** No, we will only add projects which are directly coming from the government not through any contracting agent. We are giving main importance to payments, so in these projects payments were okay so we have gone ahead. In future projects, depending on this only our management will take a decision.
- Parikshit Kandpal:** Okay so what was the capex for H1 and if you can break it up for irrigation capex and roads capex?
- K. Venkatram Rao:** Around Rs.142 Crores capex we have done in this H1.
- Parikshit Kandpal:** Irrigation and roads can you split between irrigation segment and road segment?
- K. Venkatram Rao:** Type of equipments are all same. We will provide separately this data.
- Parikshit Kandpal:** Okay so this Muzaffarpur Barauni project I think there was augmentation, which has to happen so what is the update on that?
- S. Vaikuntanathan:** In the Muzaffarpur project the augmentation as per the original concession will take another six years, but in between NHAI has announced that they may go expansion from current two laning to four laning. So now we are waiting for clear guidelines from NHAI. So due to this the monetization of this project may take some more time.
- Parikshit Kandpal:** Because I think we cannot monetize this project if they go for augmentation so?
- S. Vaikuntanathan:** That is right. We want some clarity on that so we are waiting for that and even new investor also may like to wait for that.
- Parikshit Kandpal:** This two to four laning if at all it happens and capex has to be incurred by you right? You will have the first right on that?
- S. Vaikuntanathan:** That is right, but there are other aspects to it like if it goes for augmentation before the actual date as per the concession agreement then we have an option whether to opt for it or not. you can go in for deemed termination.
- Parikshit Kandpal:** So we have mutually terminated the Chidambaram project so similar issue I think has been faced by the oddanchatram project so what is 3H status of land in that?
- K. Venkatram Rao:** Sir for this Palani project the concession agreement is not signed. So, this situation would not come because the situation has come in Chidambaram project because concession agreement was signed. Now NHAI is ensuring that until this 80% land is not there they are



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not going to sign the CA. So definitely we are also happy that once this 80% land will be there and they will be only sign it so there is no such termination will come in that project.

Parikshit Kandpal: What is the 3H status of this land?

K. Venkatram Rao: Now around 65% land is there Sir.

Parikshit Kandpal: So when do we expect this CA signing?

K. Venkatram Rao: May be two months maximum. Sir in respect of assets, we added around Rs.93 Crores assets for irrigation and balance Rs.50 Crores in roads actually.

Parikshit Kandpal: Balance of the year I think it should be incurring the capex of earlier guidance was around Rs.200 Crores for the full year so what will be 2H capex?

K. Venkatram Rao: It will be around same Sir Rs.200 Crores to Rs.225 Crores like that because we did almost Rs.142 Crores in this half year now we are not going to do much capex on this because irrigation and roads we have completed so there are only O&M capex will be there, it may go up to around Rs.200 Crores or Rs.225 Crores.

Parikshit Kandpal: Next year what will be the capex?

K. Venkatram Rao: Next year definitely based on projects so we are getting irrigation projects further we may have to incur more otherwise regular capex will be there Sir.

Parikshit Kandpal: So what will be the regular capex?

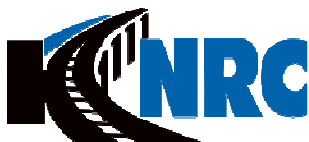
K. Venkatram Rao: May be around Rs.100 Crores to Rs.120 Crores.

Parikshit Kandpal: Thank you that is all from my side.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital India Private Limited. Please go ahead.

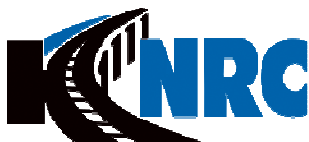
Vibhor Singhal: Thanks for taking my questions. Basically just wanted to ask on the revenue front so given that we have done already two quarters and almost half-way through the third quarter? what would be our revenue guidance for this year?

K. Venkatram Rao: We may do somewhere around Rs.2300 Crores to Rs.2400 Crores what we are guiding from day 1 we will do that Sir.



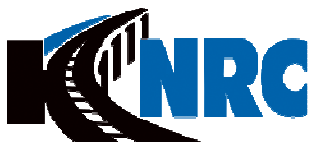
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- Vibhor Singhal:** Okay and Sir this will not include I suppose the two projects that we have not included in the order book right?
- K. Venkatram Rao:** Definitely Sir, their contribution would not come in this.
- Vibhor Singhal:** Basically if you see I think that the projects in Tamil Nadu have off late seen a lot of land acquisition problems I think along with our project, I think project of other developers like IRB and all are also kind of facing those issues so do we believe the at least Trichy and Kallagam project that we have that is completely free right? We have the entire landing position and there should not be any problem down the line on that project?
- S. Vaikuntanathan:** See once appointed date is given up to 80% of right-of-way is achieved and that has been ensured in all the three HAM projects.
- Vibhor Singhal:** Okay but how much land is actually acquired in the Trichy to Kallagam projects Sir?
- K. Venkatram Rao:** 85% is there as of today.
- Vibhor Singhal:** Remaining 15% we expect that the government should be able to provide us over there?
- S. Vaikuntanathan:** We are also following with them and we expect that we will get.
- Vibhor Singhal:** Sir on the order book front if I look at the order book that we have I mean including the projects that are not yet there in the order book. The order book strong but apart from that which other projects what is kind of pipeline that we are looking it or we looking at some state highway projects are apart from irrigation, are we looking into get into metros or some other segment or just roads and irrigation is what we are looking at?
- S. Vaikuntanathan:** We have also tendered one HAM project. The result is yet to come and whatever HAM projects that are in the pipeline in the next three to four months we are looking at. As far as the flyover are concerned, yes in Tamil Nadu some of the central government sponsored flyover projects also we are looking at it.
- Vibhor Singhal:** Right Sir and Sir from the NHAI bid we are bidding for HAM and EPC projects or we also open to bidding for BOT projects or no we are not going to bid for any BOT projects?
- S. Vaikuntanathan:** Till now nothing has come.
- Vibhor Singhal:** But let us say Sir in this fag end towards February and March or may be in next year?



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- S. Vaikuntanathan:** We will be concentrating only on HAM and flyover projects and also some irrigation projects in Telangana and BOT projects no decisions has been taken internally.
- Vibhor Singhal:** Sure Sir and Sir of the order book how much would be in the state of AP?
- S. Vaikuntanathan:** AP is zero, except NHAI one project which is a central government project. Nothing is there in AP.
- Vibhor Singhal:** And there is no state government project in AP?
- S. Vaikuntanathan:** No state government.
- Vibhor Singhal:** Sure Sir that is it from my side. Thanks for taking my questions and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Koundinya Nimmagadda from JM Financial Limited. Please go ahead.
- Koundinya N:** Thanks for taking my question. Most of my questions are answered but Sir one question on this arbitration claim, can you help us understand how that claim amount has been accounted if any and if there is any impact on EBITDA because of this?
- K. Venkatram Rao:** Actually we have received total claim around Rs.57 Crores out of Rs.57 Crores around Rs.22 Crores is the interest income that has been included in other income and out of that Rs.12 Crores has already been recognised in the previous year so Rs.23 Crores that is part of the revenue from operations Sir after netting up Rs.5 Crores of expenditure Rs.18 Crores has gone to EBITDA.
- Koundinya N:** Sir Rs.12 Crores you recognized previous year and I miss you after that if you can repeat it please?
- K. Venkatram Rao:** Rs.12 Crores already revenues in the previous year so for net Rs.23 Crores has come into revenue from operations and Rs.18 Crores has come EBITDA Sir.
- Koundinya N:** Sure Sir that is helpful. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Mayank Goel from SBICAPS Securities Limited. Please go ahead.
- Mayank Goel:** Thanks for the opportunity. Just one question as per the presentation we have invested Rs.183 Crores in these three HAM, you are saying Rs.175 Crores and as per the



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agreement with Cube also our share was Rs.175 Crores so is it that now incremental equity requirement will come directly from Cube or maybe we will have to continue to bid some of the funds for sometimes and excess portion might be reimbursed by Cube later on?

K. Venkatram Rao:

Actually what happened now this three HAM projects, our investment is Rs.175 Crores and Rs.8.5 Crores we put in the Chidambaram and we have written off that investments so that is why the exceptional item of Rs.4 Crores has come. As of now we are invested Rs.175 Crores on these three HAM project and Cube will invest around 49% of the equity requirement for these projects. Cube will put the money when 90% ROW is there and we have put our portion of money so when their portion of money will come and they will disburse 49% of the equity on that project.

Mayank Goel:

Till those conditions are met if need be any equity to be putting in these projects then you will put it up and later on you get in reimburse from Cube?

K. Venkatram Rao:

It would not come also because right now in these three HAM projects we have completed around 27%, 21% and 17% in these projects. We have not drawn the Debt also so far in these projects so we expect that we will achieve the second milestone only after that we will start drawing the debt, at that time definitely 90% ROW will be there. So we would not predict any situation where we have put to money in and later take the reimbursement for Cube.

Mayank Goel:

That answers my questions. Thank you.

Moderator:

Thank you. The next question is from the line of Shravan Shah from Dolat Capital Market Private Limited. Please go ahead.

Shravan Shah:

First of all congratulation on a good set of numbers. Sir what is the execution period for both these Megha and the Navayuga is it 15 months or 18 months?

K. Venkatram Rao:

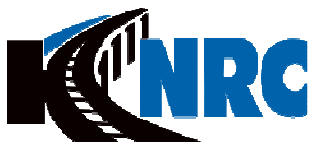
It is around two years.

Shravan Shah:

We will be completing in two years or normally we are doing faster execution in irrigation so we can expect likely to be completed by next year FY21?

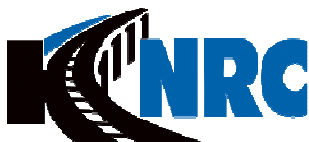
K. Venkatram Rao:

We will try to complete early based on the fund flow definitely from the government so we want to compete early.



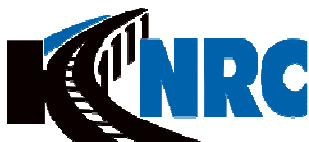
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- Shravan Shah:** Sir let us say assuming KSHIP appointed date comes by December so in the fourth quarter how much execution can we expect?
- K. Venkatram Rao:** Not much because in KSHIP, after 60 days from appointed date you will get the mobilization advance so definitely we are not expecting much revenue when you come in Q4 for KSHIP for this year.
- Shravan Shah:** Okay not even Rs.50 Crores and Rs.70 Crores also?
- K. Venkatram Rao:** We are not expecting in that because it has got too delayed.
- Shravan Shah:** Sir what about the older projects and particularly this Hubli, which is I think is close to Rs.815 Crores or Rs.900 Crores are there older projects so can we expect all of them would be completing by FY2020 or only Hubli getting to the FY21 and the rest would be completing in FY20?
- K. Venkatram Rao:** Most of the projects we will be completing next one year you can say by next mid of next 2020 we may complete all the projects including Hubli also.
- Shravan Shah:** Okay and recent one these two road EPC one in Karnataka and Tamil Nadu when that Rs.135 Crores and Rs.192 Crores when the appointed date is expected?
- K. Venkatram Rao:** Which one Sir?
- Shravan Shah:** We received two EPC road projects one from the Karnataka State government Rs.135 Crores and one is flyover at Ramanathapuram?
- K. Venkatram Rao:** Work has started on this because these are the basically EPC agreement so there is no appointed date such like that work has been started in these projects.
- Shravan Shah:** Sir so now in terms of the margin definitely we were continuously guiding lower and delivering much better that is the good news but now for the first half even if I remove the arbitration claim number also the core EBITDA margin is 20% so how do we now see for the full FY20 and for next year how do we see it?
- K. Venkatram Rao:** Definitely Sir, our guidance is that it will be different in irrigation project, they are giving better margin than the road. So still in road we will do somewhere around 15% to 16% and in irrigation it is above 20% so that guidance is there and definitely we will try to achieve that and on that if we are getting more we should be happy with that.



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- Shravan Shah:** Okay in terms of debt level how do we see that debt will it slightly increase by end of the year?
- K. Venkatram Rao:** Sir it may be in the same level Sir. It may not increase much.
- Shravan Shah:** Thank you and all the best.
- Moderator:** Thank you Sir. The next question is from the line of Ashish Shah from Centrum Broking Limited. Please go ahead.
- Ashish Shah:** Sir I just wanted to check on the Mallannasagar project, what is the payment mechanism that you did say that you got paid just today for the work which you did in the previous quarter but we were earlier trying for some sort of escrow there so what is the current mechanism which has been approved?
- K. Venkatram Rao:** Actually this work was received by Megha in JV's name. So the government will give money to that JV, JV will internally give to Megha and Megha will give to us. The entire work of that JV is not taken back to back by us, some of the portion of the JV work has taken by Megha out of that they have given some portion of work to us so that is why here to establish escrow mechanism not possible. So without any escrow mechanism we are doing that work and we are getting paid also.
- Ashish Shah:** Obviously there is no escrow mechanism but then you are not worried on the payment mechanism because the government wanted you to do this project?
- K. Venkatram Rao:** Definitely that is right Sir.
- Ashish Shah:** It gets you assured that the money will eventually get?
- K. Venkatram Rao:** We will get our money Sir.
- Ashish Shah:** On the arbitration total content so what is the tax impact on that I think what it would be at the MAT rate or would it be full tax rate?
- K. Venkatram Rao:** These arbitration is pertaining old 2008-2009 so it is still we can claim 80IA benefit so based on that we are working out Sir.
- Ashish Shah:** Right and what would be the revenue split during the quarter from irrigation and roads?



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K. Venkatram Rao: Irrigation this quarter is around Rs.95 Crores and for half-year is Rs.152 Crores and the balance is road.

Ashish Shah: Sir last question the employee cost have increased sharply so there is one exceptional component probably on some compensation so if you can just clarify what is that amount?

K. Venkatram Rao: Sir that is what happened is definitely there is increase of manpower for this year from last year to this year. Other than this, the variable pay has to be paid to the directors to the extent of Rs.5.2 Crores has been paid actually in this quarter. This is one time item but reflected in this quarter.

Ashish Shah: Right so this pertains to the previous financial year?

K. Venkatram Rao: Definitely based on 2018-2019 performance they have paid in this year Sir.

Ashish Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Jiten Rushi from BOB Capital Markets Limited. Please go ahead.

Jiten Rushi: Congratulations on a good set of numbers. Sir just wanted to know the order backlog of Pasighat the Arunachal Pradesh project?

K. Venkatram Rao: I think that is Rs.100 Crores

Jiten Rushi: Sir what is the order backlog for the older realization project especially the Palamuru Rangareddy, KP Sagar and Yedula, I think is over as on date?

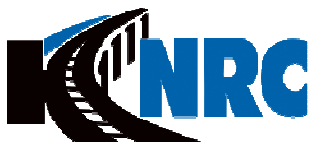
K. Venkatram Rao: Sir KP Sagar, Rs.25 Crores is there because this year there is around Rs.50 Crores of change of scope work was there.

Jiten Rushi: That was not the case last quarter?

K. Venkatram Rao: Last quarter it was not there. It was added this quarter out of that we completed Rs.30 Crores of work also, pending is around Rs.25 Crores is there Sir in KP Sagar.

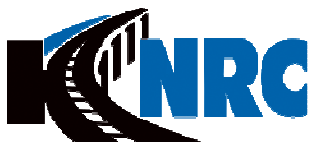
Jiten Rushi: Okay and what about Yedula is done I am assuming right Sir?

K. Venkatram Rao: Yedula, Rs.13 Crores is there Sir.



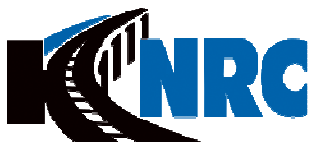
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- Jiten Rushi:** Palamuru Rangareddy Sir? That is the JV with PSK-KNR?
- K. Venkatram Rao:** That is around Rs.77 Crores.
- Jiten Rushi:** There is no movement on these two quarters?
- K. Venkatram Rao:** This quarter there is no billing.
- Jiten Rushi:** We are trying to complete this by end of this year this irrigation, older projects KP Sagar and this Yedula?
- K. Venkatram Rao:** Definitely Sir we are going to complete this year.
- Jiten Rushi:** Sir on the Bengaluru KRDCL project what is outstanding order backlog Sir?
- K. Venkatram Rao:** This is Rs.135 Crores.
- Jiten Rushi:** There is no movement and Sir any tax rate guidance for this year and next year because as you are not moving to the new tax regime, what will be the guidance?
- K. Venkatram Rao:** Revenues we told that it will be somewhere at Rs.2300 Crores to Rs.2400 Crores and EBITDA guidelines, in normal course it will be somewhere between around 17% and 18% Sir.
- Jiten Rushi:** And tax rate Sir?
- K. Venkatram Rao:** Tax rate will be Sir right now it is coming to around 25% so by the end of year we will move up to 30%.
- Jiten Rushi:** Earlier you were giving lower guidance for FY20 and around 15% to 18% and around 20% FY21 so what has changed in this guidance?
- K. Venkatram Rao:** Sir actually, the guideline is what I am talking is without deferred tax is we considered there is deferred tax it will reduce.
- Jiten Rushi:** What is effective tax rate Sir?
- S. Vaikuntanathan:** Effective tax rate in this six months has come to around 15%.
- Jiten Rushi:** FY20 and FY21 what could be the effective tax rate Sir?



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- S. Vaikuntanathan:** This year around 20%, next year it may go up to 25% to 27%.
- Jiten Rushi:** Sir about the debtors days so we have not seen any significant change like last quarter also it was bit high this quarter also you are seeing about 50-55 days so what could be the reason or we are seeing some improvement by end of this year?
- K. Venkatram Rao:** Debtors will be same rate because only now major debtors is coming from the SPV companies, HAM projects, on HAM project actually we are getting money from the NHAI on time and this year it will be around same range only. In case of this irrigation project it may go little bit higher in the future, but still we are expecting that it will be within range only.
- Jiten Rushi:** Thank you.
- Moderator:** Thank you Sir. The next question is from the line of Niteen S. Dharmawat from Aurum Capital. Please go ahead.
- Niteen S. Dharmawat:** Thank you for the opportunity. Couple of questions Sir since I missed the initial commentary it might be the repetition so what is the status of NHAI financial stress now? Are we getting the funds in time and what about the new project allocations? Are they in process now that is my first question?
- S. Vaikuntanathan:** There is no problem with respect to payment, billings and other things. As far as new projects are concerned, there has been some changes in the modality, like if only up to 80% of the right-of-way then they will go for tendering and also they want to establish the viability of projects at the time tendering so monetization for them will be very easy so this process takes some time otherwise financially there is no such problem with NHAI because bills are being paid in time and even the grants are being paid on time.
- Niteen S. Dharmawat:** Very good to hear Sir. Sir my second question is what kind of projects are we planning to bid going forward, HAM or EPC? Also what is the competition level in bidding process and what is the impact of monsoon this year on our execution?
- S. Vaikuntanathan:** Number one we are bidding for all projects including HAM projects and EPC projects, also EPC projects of irrigation and flyover and roads all we are targeting. The road EPC projects are going very aggressively. We have set a standard that we should bid only with this much EBITDA level so then when it goes aggressively we are losing the chance in EPC road projects. We find it in HAM we are able to strike the same rate because the developers have to go in for funding and since we are having better balance sheet we feel that we have got



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the edge over others. So there also we continuously bidding for good HAM projects where the first preference will be going to the logistically near projects and slowly we will go for projects, which is viable for us. Also the flyover projects of Tamil Nadu and other places where we have got an expertise over the execution that has also we are concentrating on.

Niteen S. Dharmawat: Okay Sir and what is the impact of monsoon this year?

S. Vaikuntanathan: In Tamil Nadu side and also in Telangana side the monsoon was little bit delayed but the progress has not been much affected. There was some delay in execution.

Niteen S. Dharmawat: Thank you so much.

Moderator: Thank you Sir. We have the next question from the line of Anupam Gupta from IIFL Holdings Limited. Please go ahead.

Anupam Gupta: Sir first question is what is the total equity requirement estimate for the KSHIP and TN HAM projects which is pending, approximate equity?

K. Venkatram Rao: Around Rs.220 Crores Sir.

Anupam Gupta: Secondly for the existing three HAM further equity will mostly come from Cube?

S. Vaikuntanathan: Yes Sir.

Anupam Gupta: This Rs.220 Crores would be almost equally divided in FY21 and FY22?

Venkatraman Rao: The lenders normally insist 51% upfront, this year we may require to put Rs.100 crores and next year Rs.100 crores that is correct.

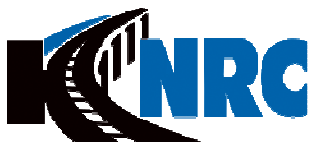
Anupam Gupta: FY21 right or will you invest in FY20 itself?

S. Vaikuntanathan: One is FY20 and one is FY21 Sir.

Anupam Gupta: Thank you.

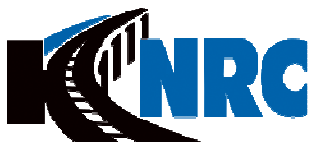
Moderator: Thank you. The next question is from the line of Rita Tahilramani from Invesco Mutual Fund. Please go ahead.

Rita Tahilramani: Congratulations on a very good set of numbers. Sir I just need the land acquisition status in terms of 3H for Chittoor Mallavaram project?



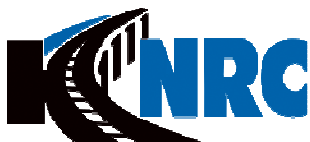
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- K. Venkatram Rao:** It is around 95% is there.
- Rita Tahilramani:** 95% okay and Mangloor project how much that be?
- K. Venkatram Rao:** 84% is there
- Rita Tahilramani:** KSHIP?
- K. Venkatram Rao:** KSHIP is around 60%, we are yet to received appointed date. We are waiting for that, 80% at least we have to achieve.
- Rita Tahilramani:** May be the appointment date it would be right to assume that this appointment date would be received only in the next year?
- K. Venkatram Rao:** End of this quarter will receive.
- K. Venkatram Rao:** We will receive the appointed date by December.
- Rita Tahilramani:** Considering you are doing more of irrigation projects and accordingly still there has been increase in terms of depreciation because normally we see irrigation with more execution and followed with higher depreciation?
- K. Venkatram Rao:** Yes definitely Madam and irrigation project will contribute more, then depreciation will be high that is why this year and last year we did depreciation around Rs.168 Crores, this year it may go account to that range only.
- Rita Tahilramani:** Lastly in terms of the order inflow guidance did I hear it additional Rs.1000 Crores to Rs.1500 Crores that is it?
- K. Venkatram Rao:** That is right.
- Rita Tahilramani:** So this would imply just one additional HAM project?
- S. Vaikuntanathan:** One or two HAM projects as some projects are around Rs.800 Crores also.
- Rita Tahilramani:** Okay but considering the scenario if it improves do you think you can bid for additional projects because this is the comfort in terms of balance sheet?
- S. Vaikuntanathan:** Yes.



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- Rita Tahilramani:** That is it from my side and good luck for future.
- Moderator:** Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities Limited. Please go ahead.
- Pankaj Kumar:** Thanks for taking my question. Sir based on the current order book and if wanted that timeline that we have for the two other HAM projects so any guidance that you would like to give for FY21 in terms of revenue?
- K. Venkatram Rao:** Actually we are whatever turnover we will do, we want to add that back in our order book by new orders. So next year we expect to do somewhere between Rs. 2,600 to Rs.2700 Crores and Rs.3000 Crores we will add in next year in order book.
- Pankaj Kumar:** Sir revenue, you are saying for next year Rs.2600 Crores to Rs.2700 Crores and Rs.3000 Crores of order inflows for next year you are saying?
- K. Venkatram Rao:** Yes Sir.
- Pankaj Kumar:** Sir on the second question is on the blended margin that we have reported in H1 so it is around 20% adjusted for the one-off so we say like 15% to 16% margin in roads and 20% in irrigation so if I blended so that looks little higher so any other one-off that we are not aware of?
- K. Venkatram Rao:** That is why we told in irrigation we are doing more than 20%. It is going up to around 22% to 23% also. Based on different criteria it will change but normally we are expecting in roads 15% to 16% and irrigation is above 20% as around 22% to 23% that is we are giving guidance but definitely we will achieve near to the guideline.
- Pankaj Kumar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.
- Faisal Hawa:** Sir you are making this habit to under promise and over deliver so congratulations for that.
- S. Vaikuntanathan:** That makes you happy also.
- Faisal Hawa:** My question to you is how do you think keep things evolving on the competition scenario because we see more and more road construction companies going out of business due to balance sheet issues and probably think in the last quarter when we orders really and there



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will be few bidders for HAM projects and since you have now brought this almost like perennial contracts which Q2 take over all this with all your projects can you not go more aggressive and bid for Rs.6000 to Rs.7000 Crores orders?

S. Vaikuntanathan: No question of aggressiveness. See we cannot take more projects. Whatever can be monitored and controlled that much you have to restrict because taking more projects also will not be of any use, if you are not able to exercise control over the projects. We are also first giving preference to the logistically nearby projects where we can do the performance in much shorter time plus the EBITDA level normally management takes a call on that below that we should not quote so all these aspects also taken into consideration while bidding. We stand a fair chance of getting good HAM projects without any problem fortunately because of our balance sheet being on stronger side. Another advantage is we have already presold three HAM projects so we may look in for better HAM projects with margins so we hope to get sizable projects. NHAI has delayed the bidding and they have also said that with 80% of right-of-way only they will come for bidding and also they are seeing viability of the projects before bidding so this process takes some time. Suppose if 80% of ROW available and then they have gone for bidding, the developer will be able to complete the project at a faster rate. So, we have fair chance as many projects are coming up from December onwards so we will take more some more projects.

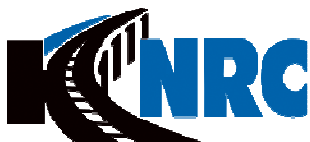
Faisal Hawa: Are you seeing competition intensity decreasing or are you seeing some opportunity in building of metro competition?

S. Vaikuntanathan: Whatever level of competition is there it will continue because most players are able to offload the projects to PE players. The strategy developers are now adopting that whatever maximum they are able to offload then that much gap is available for them to enter into new projects. Many people are now able to now place with PEs and all even under construction projects so that is welcome step for the new players, the exiting players on the new players should take more projects.

Faisal Hawa: Thank you so much.

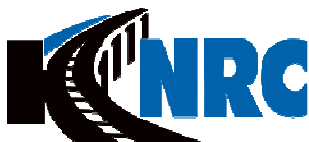
Moderator: Thank you. The next question is from the line of Sanjay Ghosh from SG Capital. Please go ahead.

Sanjay Ghosh: Arbitration which has been recognized in revenue whether that will be challenged in the High Court or is it concluded?



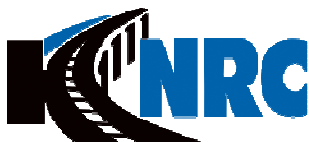
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- K. Venkatram Rao:** This award has been received from court only after which NHAI has made the payment. NHAI is not going to challenge this award now.
- Sanjay Ghosh:** Are we opting lower tax regime as per the new notification for all the SPVs?
- K. Venkatram Rao:** SPV will go for that only Sir.
- Sanjay Ghosh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Any more claims you have received in this one-and-a-half month?
- K. Venkatram Rao:** Sir this is only claim received even last concall also we have told that we are expecting one claim in this quarter.
- Ravi Naredi:** That is why I am asking you?
- K. Venkatram Rao:** Yes same claim Sir.
- Ravi Naredi:** Any chance to receive in this quarter any claim this quarter or this financial year?
- K. Venkatram Rao:** For claims you cannot tell. Very difficult to predict.
- Ravi Naredi:** All the best Sir and you are doing fantastic.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities Limited. Please go ahead.
- Parikshit Kandpal:** Sir what was the total order inflow for H1?
- K. Venkatram Rao:** We have got two irrigations projects in this half year.
- Parikshit Kandpal:** Rs.1700 Crores of two irrigations projects?
- K. Venkatram Rao:** Yes.
- Parikshit Kandpal:** No change in scope changes work would be how much?



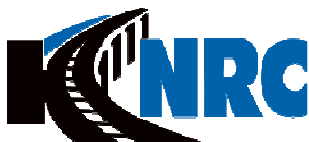
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- K. Venkatram Rao:** Change of scope has come for this quarter. We have got around Sir Rs.100 Crores of change so will this quarter. KP Sagar is Rs.60 Crores Sir, Hubli Rs.35 Crores and Pollachi around Rs.38 Crores Sir.
- Parikshit Kandpal:** Total inflow will be around Rs.1800 Crores for the first half YTD up to now total Rs.1800 Crores?
- K. Venkatram Rao:** Yes around Rs.1800 Crores.
- Parikshit Kandpal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital India Private Limited. Please go ahead.
- Vibhor Singhal:** Thanks for taking my questions again. Sir just to get the clarifications so you mentioned that in the first half we have got two irrigations order for Rs.1700 Crores?
- K. Venkatram Rao:** Yes Sir.
- Vibhor Singhal:** Sir in the remaining second half how much order inflow are we targeting?
- K. Venkatram Rao:** Around Rs. 1,000 to Rs.1500 Crores.
- Vibhor Singhal:** Rs.1500 Crores okay so basically put together around Rs.3000 Crores is the total order inflow that we are targeting for the full year?
- K. Venkatram Rao:** Yes.
- Vibhor Singhal:** Sir similar amount for the next year also or that is too early to say?
- K. Venkatram Rao:** Next year our guidance is that how much ever we are able to execute at least that much we want to add it at least?
- Vibhor Singhal:** Thank you so much for taking my questions. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities Limited. Please go ahead.



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- Mohit Kumar:** Sir two questions first is on the, Sir you are targeting two orders from irrigation projects in H1. Is there any update on the other projects and do you expect any other irrigation projects to bid out in the next 12 to 18 months in AP or Telangana?
- K. Venkatram Rao:** AP definitely we are not looking any projects in AP Sir and Telangana is definitely we are looking some projects, but it is too early to say but definitely we are looking at some irrigation projects in Telangana if it is coming for bidding Sir.
- Mohit Kumar:** Sir what could be the size is it large enough opportunity?
- K. Venkatram Rao:** The notice is not out, because government is planning to come with some further reservoirs actually in this Kaleshwaram project only but it may take time Sir at least one year actually.
- Mohit Kumar:** So that part of Kaleshwaram project irrigation project.
- K. Venkatram Rao:** Yes because some part of the Kaleshwaram is still pending on that government is planning to come with some projects so we are working on that.
- Mohit Kumar:** I saw that in PPT. I think you have the initially Cube Highways was investing in three HAM and since of the projects KNR Chidambaram has got cancelled, you will add another one?
- K. Venkatram Rao:** Yes.
- Mohit Kumar:** Does the agreement is blanket agreement that says whenever do HAM we can bring Cube along with those projects and do you need any NHAI approval right now or you will take it subsequently?
- K. Venkatram Rao:** We have agreements with Cube on project to project. It is not a blanket approval. It is project specific and based on that we will go with the Cube. Definitely we have to go for NHAI as well as lenders approvals so before Cube starts putting the money we will go to NHAI and it may take around further one year from now to put their money so within this period we will go NHAI as well as lenders to take their approvals.
- Mohit Kumar:** Thank you Sir. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Shravan Shah from Dolat Capital Market Private Limited. Please go ahead.



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- Shravan Shah:** Sir if I remove this Rs.22 Crores in arbitration interest which is part of other income, other income is significantly lower if I just look at the last quarter was Rs.17 Crores so this is only Rs.4-odd Crores so how do we see other income in the next two quarters?
- K. Venkatram Rao:** Last year there was actually lot of surplus money in the mutual fund also so that is why the interest has come into other income, but this year from April onwards there is no fund in the mutual fund. Even our working capital utilization has gone up in the current year as compared to last year. This year we expect that other income may go around Rs.30 Crores not much.
- Shravan Shah:** Okay. That is it from my side Sir.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference to Mr. S. Vaikuntanathan for closing comments.
- S. Vaikuntanathan:** Thank you everyone for your participation in our earnings call. In case of any query you may get in touch with Strategic Growth Advisors, our investor relation advisor or free feel to get in touch with us. Thank you very much.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of KNR Construction that concludes this conference call. Thank you for joining us and you may now disconnect your lines.