KNR Constructions Limited.

Date: 29th June 2019

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

BSE Code: 532942

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

NSE Code: KNRCON

Sir,

Sub: - Transcript of Conference Call Q4 & FY 19

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

With reference to the above please find attached the Earnings Call Transcript for the Q4 & FY 19, this for your information and records.

Yours truly,
for KNR Constructions Limited

KNR Constructions Ltd.

M. V. Venkata Rao

M. V. VENKATA RAO
Company Secretary

"KNR Constructions Limited Q4 & FY2019 Earnings Conference Call"

May 31, 2019

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

Moderator: Ladies and gentlemen, good day and welcome to KNR Constructions Limited Q4 & FY2019 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 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 listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Vaikuntanathan, Vice President-Finance, KNR Constructions Limited. Thank you and over to Sir!

S. Vaikuntanathan: Good afternoon friends. I welcome you all on our earnings call for quarter and full year ended March 31, 2019. Along with me I have, Mr. K. Jalandhar Reddy, Executive Director, Mr. K. Venkatram Rao, General Manager (Finance & Accounts) and Strategic Growth Advisors, our Investor Relations Advisors.

I will start with a brief on the key updates on the industry then we will discuss on the company's performance. The roads and highways sector is one of the fastest growing areas of India's infrastructure industry boosted by government initiatives like Bharatmala Pariyojana to build a nationwide network of highways. The overall road construction sector remains subdued in FY2019 mainly due to delay in financial closures of previously awarded HAM projects, land clearance issues and lack of funding from private and public sectors banks for road projects. As a result of this the sector has witnessed a lower tendering of orders from NHAI, which was less than 3000 kilometer in FY2019.

However, the NDA government has come back for the next five years and infrastructure development is one of the biggest agenda. DPRs and land clearances are in advanced stages and have been expedited by NHAI. Hence we expect the awarding activity to witness upward movement from this year onwards where the government has already shortlisted around 25,000 kilometers of highways to be awarded over the next three years under the Bharatmala.

On the funding side, during the interim budget for FY2020, the allocation towards roads and highways has been increased along with larger allocation to NHAI as well. Additionally, NHAI will soon be coming out with the third auction under TOT model, which will have the road projects of around 550 kilometer. All these initiatives are expected to free up funds for NHAI so that it can be allocated to fund new projects.

Going ahead we expect huge thrust on infrastructure especially roads to boost higher economic development of the country.

Now coming to the operations of the company, we have a portfolio of 10 projects of which 6 are HAM projects, 2 are BOT toll and 2 are BOT annuity projects. In Q4 FY2019 we have bagged our 6th HAM project worth Rs.920 Crores (BPC) in the state of Tamil Nadu. We are yet to sign the concession agreement for this projects post which we will be tying up for agreement for this project and also debt for financial closure. Out of other HAM projects we have received appointed date for 2 projects that are Chittoor to Mallavaram in the state of Andhra Pradesh and Ramsanpalle to Mangloor in the state of Telangana. Chittoor to Mallavaram has entered into construction phase during Q4 FY2019 and we have completed approximately 11% of the construction as of March 31, 2019. We are in the process of submitting the bill for the first milestone payment to NHAI. We have already invested Rs.72.5 Crores of the equity in Chittoor project. The total equity invested in all our HAM projects stands at Rs.105 Crores. The construction activity at Ramsanpalle to Mangloor has already started in the current quarter of Q1 FY2020. The appointed date of Trichy to Kallagam project is expected to be received by the end of June and for Meensuruti to Chidambaram project we expect the appointed date to be received in the month of July. The delay in respect of the appointed date for Chidambaram project was mainly due to land clearance issues, which will be expedited by NHAI.

With regards to the KSHIP HAM project, we are in the advanced stages of financial closure and we will be submitting the documents to the authority very shortly. During the last financial year, we have entered into a share purchase agreement with Cube Highways & Infrastructure Private Limited for divestment of our stake in 3 of our HAM projects namely Trichy to Kalagram, Meensuruti to Chidambaram and Chitoor to Mallavaram projects. As per the agreement, our SPVs will sell the entire project to Cube Highways in two stages, with the first stage to be scheduled to be completed after achievement of COD and the second stage scheduled to be completed after the expiry of mandatory lock-in period as per the concession agreement. We expect an aggregate investment of Rs.145.34 Crores in these three projects, which equals to 51% of project equity requirement. Against our investment of Rs.145.34 Crores we will receive approximately Rs.262.5 Crores as per the share purchase agreement. The final amount may undergo some changes at the time of COD. Cube will invest 49% equity after 90% of ROW is achieved during the construction in each of these 3 projects.

Update on BOT projects. Our 100% owned Walayar-Vadakkancherry project BOT toll project is witnessing improved average toll collection of Rs.18 lakhs per day. We are in the process of evaluating various options to monetize this project very soon. Our Bihar project that is Muzaffarpur-Barauni has also improved on a consistent basis and we are collecting an average toll of Rs.24 lakhs per day currently.

Coming to EPC projects, we have recently won two EPC projects worth Rs.233 Crores and Rs.135 Crores from the state governments of Tamil Nadu and Karnataka respectively. Our total order book position of Rs.4,015 Crores as on March 2019 consists of EPC component of three HAM projects of Rs.2,662 Crores, which is 66.3%. Out of the remaining order book central government project contributes Rs.673 Crores that is 16.8% and state government projects contribute Rs.681 Crores that is 16.9%. In this order book we are yet to include three EPC HAM projects of Chidambaram, Palani and KSHIP where we have to receive the appointed day totaling to around Rs.1,885 Crores, so taking this into account our total order book position will be

Rs.5,900 Crores. In terms of order book breakup, roads constitute Rs.3,842 Crores that is 95.7% of the total order book. Our irrigation projects are Rs.172 Crores that is 4.3% of the order book. We expect a large number of projects to be bid out in the current financial year and we hope to get an order inflow of approximately Rs.2,500 Crores in the next 12 to 15 months. Now I request Mr. K. Venkatrama Rao, our GM to present the results for the quarter and full year ended March 31, 2019.

K. Venkatram Rao: Thank you Sir. I hope you have gone through our results and the presentation that we have circulated and uploaded on our website. I would now present the results for the quarter ended March 31, 2019. The total revenue on standalone basis is Rs.715.7 Crores in Q4 FY2019 as against Rs.624.4 Crores during the same period in the last financial year a growth of 14.6%. Our standalone EBITDA for Q4 FY2019 stood at Rs.144.1 Crores with a margin of 20.1%. The EBITDA margin is higher than our normal range of 14% to 15% mainly due to higher revenue from the irrigation projects, which are yielding better EBITDA and reduction of back-to-back subcontracting. The standalone profit before tax stood at Rs.101.4 Crores in Q4 FY2019 as compared to Rs.81.11 Crores in Q4 FY2018. The standalone profit after tax for Q4 FY2019 is Rs.92.2 Crores with a margin of 12.9%. The net profit margin has been lower on year-on-year basis primarily due to higher tax provisioning as the project, which enjoy 80IA benefit are getting completed in the current year and higher deprecation in irrigation project as per the management estimate.

Moving on the performance for the full year ended March 31, 2019 the revenue on standalone basis is Rs.2,137.3 Crores in FY2018 as compared to Rs.1931.6 Crores during the same period in the last financial year a growth of 10.6%. Our standalone EBITDA for FY2019 stood at Rs.427 Crores as compared to Rs.383.9 Crores during the same period in the last financial a growth of 11.2% EBITDA. EBITDA margin for FY2019 stood same as 20% as compared to FY2018. Standalone profit before tax stood at Rs.290.6 Crores for FY2019 as compared to Rs.268.2 Crores in FY2018 a growth of 8.4%. Standalone profit after tax for FY2019 is Rs.263.3 Crores with a margin of 12.3%. We have incurred a capex of Rs.214 Crores in FY2019 as compared to Rs.225 Crores in FY2018. Our gross block as of March 31, 2019 stand at Rs.1,075 Crores, which gives us the capability to execute project up to Rs.2,500 Crores to Rs.3,000 Crores per year. On balance sheet side as on March 31, 2019 the debt on the standalone balance sheet is Rs.264 Crores including promoter loan of Rs.205 Crores and net working capital is 36 days.

Now moving on the consolidated performance for the full year ended March 31, 2019, the total revenue is Rs.2,291.5 Crores in FY2019 as against Rs.2,069.6 Crores during the same period in the last financial year a growth of 10.7%. EBITDA for FY2019 stood at Rs.536.7 Crores as compared to Rs.446.3 Crores during the same period in the last financial year a growth of 20.3%. EBITDA margin for FY2019 stood at 23.4% as against 21.6% in FY2018. Profit before tax stood at Rs.292.4 Crores in FY2019 as compared to Rs.228.2 Crores in FY2018 a growth of 28.1%. Profit after tax for FY2019 is Rs.264.9 Crores with a margin of 11.6%. Our balance sheet side as of March 31, 2019 the debt on the consolidated balance sheet is Rs.729 Crores including promoter loan of Rs.205 Crores. Debt to equity on consolidated basis stand at 0.5 times. With this we now open the floor for question and answer.

Moderator: Thank you very much Sir! Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Congratulations on good set of numbers. Sir my question was today you would have heard lot of news about Andhra Pradesh, so firstly if you can highlight what is our exposure in AP and going ahead are we focusing on this market or targeting new orders, are we targeting at all any orders from this market?

K. Jalandhar Reddy: We have no work in State Government of Andhra Pradesh as of now. If there is any good bidding which is happening we will examine to put the bid definitely. We only have our Chittoor to Mallavaram HAM Project from NHAI in AP.

Parikshit Kandpal: That would not get affected?

K. Venkatram Rao: There is no impact in this project because this is an NHAI project and we do not have any project from the state government side as we had envisaged earlier that there were some payment related issues. So we went very slowly here.

Parikshit Kandpal: Secondly on the irrigation project in Telangana, now the value of order is very low of Rs.170 Crores so my question was that what kind of opportunities you are seeing in the irrigation segment in Telangana now?

K. Jalandhar Reddy: Sir actually we are in discussion with two major construction companies as they would like to offload one or two projects to us, so it is in discussion stage and we will get back to with the final announcement in a month's time.

Parikshit Kandpal: Has there been any bids that are out?

K. Jalandhar Reddy: Actually we have expected new orders to come, but I think it is still getting delayed because of the financial issues that are being faced by the Government of Telangana as of now.

Parikshit Kandpal: Sir just lastly, you have highlighted that the gross block totally is like Rs.1075 Crores so how much will be irrigation gross block in this and I think last call we had said that depreciation, which is now almost averaging around Rs.45 Crores on a quarterly basis so how is this number looking now because I think last part quarter was coming from that irrigation?

K. Jalandhar Reddy: Actually this year we have added very less in irrigation. Only in the beginning of the year, Q1 we have added around Rs.100 Crores odd, we have completed the KP Sagar project with that additional equipments. Most of the equipments are taken to mobilize on the new HAM projects along with some equipments from the old EPC contracts. So each project has taken Rs.20 Crores capex along with the maintenance capex of about Rs.40 Crores to Rs.45 Crores.

Parikshit Kandpal: Venkat Sir how much would be the quarterly depreciation since the irrigation projects are now almost over so is this number going to come off significantly which is Rs.47 Crores to Rs.48 Crores of deprecation this quarter. How much should be attributable to the irrigation gross block is what I want to figure out basically?

K. Venkatram Rao: Definitely it is mostly from the irrigation project, but exact detail I just share with you separately.

Parikshit Kandpal: That is all from my side. I have more questions, I will join the queue.

Moderator: Thank you. The next question is from the line of Vibhor Sighal from PhillipCapital. Please go ahead.

Vibhor Sighal: Good afternoon Sir. Thanks for taking my question. Congrats on a great set of numbers. Sir I had just two questions. Sir one is we have done almost a growth of around 10% despite the order book being weak at the beginning of the year, so what is the kind of topline or revenues that we are looking for next year?

K. Jalandhar Reddy: The appointed dates are going very slow with NHAI. As of now I think two projects only have got the appointed date where these were actually expected in the month of September. Various reasons like land not being available, disbursements not being done, along with certain court cases has lead a lot of delay. In one more project, for which the joint memorandum was signed for the Trichy to Kallagam project, but NHAI till now have not announced appointed date issuance. So there is a lot of ambiguity and there is lot of delay that is happening from NHAI side. Moreover, there is a new setup at NHAI along with a new team which is causing little bit of delay in overall working. Earlier, projects were being taken up at 60-70% land availability however now the situation has changed. . Even after we have signed with 80% land available they are not coming forward to give us the date, so here the predictions are a little bit volatile. But still I would like to commit at least 10% to 15% growth in this year because Q1 is almost getting over and we still have only two appointed dates in hand. So there is nothing much that is going to happen in Q1, Q2 again is going to be the rainy season. So in Q3 and Q4 we are very well focusing to achieve this target.

Vibhor Sighal: You are saying that despite the delay in the appointed dates and the second quarter being the monsoon season we should be able to do 10% to 15% kind of a growth this year over FY2019?

K. Jalandhar Reddy: Yes Sir, 10% to 15%, it could be between that with an assumption that withing one month or two months we shall have all the appointed dates in hand.

Vibhor Sighal: Sir what is the kind of order inflow that you would be targeting this year?

K. Jalandhar Reddy: Actually Sir another Rs.2,000 Crores to Rs.2,500 Crores we are targeting out of which we got one order from Tamil Nadu HAM whose EPC value is around Rs.700 Crores nearby, so I think that is in place now.

Vibhor Sighal: So apart from that you are expecting may be Rs.1300 Crores or Rs.1500 Crores of more orders?

K. Jalandhar Reddy: We will try to replenish our order book with whatever turnover we are expecting to achieve in this financial year.

Vibhor Sighal: Sir this inflow that you are targeting will be mainly from NHAI projects only or you are targeting some other irrigation project or may be metro orders?

K. Jalandhar Reddy: All put together. We are trying in all other areas as well. Now that we have a sufficient orders in hand we do not want to pick up orders hurriedly which are highly competitive jobs. Let us be defensive in play and try to get good orders with higher margins.

Vibhor Sighal: Lastly on the margin side, I think we have been guiding for a long time about 15% to 16% kind of EBITDA margins, but I think for the past seven to eight quarters due to various reversal of provisions we have been reporting almost 20% EBITDA margins. So how much of these provisions are left and till when do you see these provisions keep getting reversed and our margins being at 20% or do you believe this 20% is a stable margin that we should work with?

K. Jalandhar Reddy: No Sir, actually what has happened is that the input prices keep variying. For example if you observe in the last two to three months the cement prices have gone to the peak whose impact is going to be very difficult for us to predict. Luckily, the diesel prices or bitumen prices were in control, but steel and cement prices have gone very high . So on an overall level, things are under control. We really cannot say what is going to happen with these input prices. Secondly, even the other components like equipment purchase cost and quarrying cost is going up. All this is creating challenges for us to predict. I can straightaway say that we will get 20%, but tomorrow if something happens like this in input prices and if there is a huge difference then we will not be able to answer on that day. Well let us be on the lower side and try to get a better margin.

Vibhor Sighal: Sir all these projects escalation based so even if let us say cement prices or steel prices fall or go up you basically get them at the same rate from the awarding body so why should their movement impact our margins in such a big manner?

K. Jalandhar Reddy: If you go with the WPI escalation formula, we do not get 50% of the growth in cement and steel prices. Not even 50% we get because the wholesale price Index has a very low weightage given to cement and steel that is the problem. Diesel pricing we are able to get the pass on entirely even bitumen to the extent of 80% to 85% we are getting a pass on. However, if you come to steel and cement, it is creating problem and nowadays most of the roads are coming with cement roads and heavy structures also. For example, if you take 40 kilometers road they are giving 140 to 150 structures in that. These components have gone up so that was alarming for us.

Vibhor Sighal: so Sir what I am trying to ask here is that if you are saying that the entire input cost is not passed on then the margins should be impacted negatively, but for the past six to eight quarters our margins have been impacted positively we used to do 15% to 16% margins, now we are doing 20% margins?

K. Jalandhar Reddy: Sir now actually what happened at the time of tender we expect something so now we are taking all the appointed dates after one year of bidding.

Vibhor Sighal: Sir, but that is only for HAM projects earlier we used to do only EPC projects

K. Jalandhar Reddy: EPC story is gone now because now most of the execution will be on HAM only, so this year I am worried. I am starting all the projects after one year of bidding so there has been big hit in various costs. Now, if I have to go in the market and pickup a project in the market, can I guarantee and say that I can pick up a project at 20% EBITDA margin? No, it has to be on the competitive side to win the job, I will have to be little bit flexible in the market. So with all these reasons I take little liberty and flexibility to keep myself in the comfort zone.

Vibhor Sighal: Sure Sir. Thanks for answering my questions and wish you all the best.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead. Parvez Akhtar from Edelweiss your line is unmuted. Please unmute the line from your side and go ahead.

Parvez Akhtar: Good afternoon Sir. Congratulations for a great set of numbers. Sir I had a couple of questions from my side. First if we could get details of the equity that we have already invested in the HAM project and also what is the equity infusion scheduled for the next couple of years?

K. Venkatram Rao: Actually so far we included Rs.105 Crores in these four HAM projects. The total equity requirement for these projects is around Rs.390 Crores out of that we have to put around 50% so around Rs.190 Crores. Out of that Rs.190 Crores we put actually Rs.105 Crores in these four HAM projects. In Tirumala project we have put entire 50% upfront equity. In our Sangareddy project we are expecting to put around Rs.54 Crores of equity in a weeks time. So with this we may put around Rs.160 Crores of the equity in this quarter.

Parvez Akhtar: Of the Rs.105 Crores that we have invested would it be possible to get a breakup of which project we have infused and what kind of equity?

K. Venkatram Rao: Tirumala we put Rs.72.5 Crores, Chidambaram Rs.8.5 Crores, Srirangam Rs.11 Crores, and Shankarampet Rs.13 Crores. It is there on Slide number 23 of the presentation.

Parvez Akhtar: The other thing is are we okay in taking more HAM projects let us say in FY2020?

K. Jalandhar Reddy: The thing is now there are considerable EPC projects coming up and definitely we will be focusing on that. There has talks that NHAI may come out with BOT Toll Projects also, so there is confusion for us also, Priority wise I would like to tell that we will take up EPC projects in first priority and second priority will be given to the HAM projects. Toll projects, right now, we are not thinking to Participate in it.

Parvez Akhtar: Sir last question for the HAM projects where we have not got the appointed date as yet would it be possible to get the land acquisition status?

K. Jalandhar Reddy: Sir there are four projects out of which for two projects we have already received the appointed date. the third project which is Trichy-Kallagam the land is available and we have already signed a joint memorandum, however the formal communication is yet to come because of some waiver of penalty that is being asked by NHAI which is pending. I think more or less in June it should gets solved and we will be able to get the appointed date. If you go to the forth project which is Meensuruti to Chidambaram project there is land problem and it is likely to take another two to three months.

S. Vaikuntanathan: One more addition that in Shankarampet we have already invested Rs.52 Crores.

Parvez Akhtar: Sure Sir thanks. That is it from my side and all the best for the future.

Moderator: Thank you. The next question is from the line of Sriram Kumar from Spark Capital. Please go ahead.

Sriram Kumar: Good afternoon Sir thanks for the opportunity. Sir I have a question on receivables. Sir we have completed around 10.6% in one of the HAM projects, but our receivables has been flat, so we have not received the payments from NHAI also, so I just want to understand how the payment mechanism works here because HAM is a milestone basis payment?

K. Jalandhar Reddy: What is happening here is that upon 10% of the completion they will give 8% grant so for the Tirupati project only the situation has come up. This month end we are crossing more than 17% project completion. so next month first to second week we will be able to get grant about 8%.

Sriram Kumar: But our receivables is flat now Sir, it is not getting reflected in our receivables?

K. Venkatram Rao: Because out of this Rs.123 Crores we received mobilization advance from the NHAI, so as per the condition of the contract my EPC contractor only will get 10% of the EPC work so balance mobilization advance is left out and we have put our equity contribution also of Rs.72 Crores. So out of that the bills have been paid off. Out of Rs.126 Crores of revenue in Tirumala, outstanding is only Rs.20 Crores. Rs.100 Crores has been paid actually.

Sriram Kumar: You are saying that the receivables is in SPV's book is my understanding right Sir?

K. Venkatram Rao: No it has been already paid to the EPC contractor. We have put equity contribution and we got mobilization advance from the client also, so with this the money has been paid to the EPC contractor.

Sriram Kumar: Sir got it. Sir with the monsoon approaching so can we expect any further delays in Trichy-Kallagam appointed date and Chidambaram-Meensuruti appointed date?

K. Jalandhar Reddy: Chidambaram is anyways getting delayed, but Trichy-Kallagam I think June 10, 2019 we have a meeting with the BBS committee, so after that committee meeting I think we will have to enter a supplementary agreement with NHAI and then take an appointed date. It will come in the third week of June.

Sriram Kumar: Sir what is the land acquisition status on the Karnataka Project?

K. Jalandhar Reddy: Karnataka project I think 55% is there as of now and in the second week of June we are submitting the financial closure documents. They are going with direct negotiation method, so we expect to get back in another two months.

Sriram Kumar: So 55% 3H land?

K. Jalandhar Reddy: Yes Sir.

Sriram Kumar: Sir last is can you give the split up of the rest of the orders in the order book?

S. Vaikuntanathan: It is given in the presentation. You want any specific project wise?

Sriram Kumar: Project wise, so flyover in Salem, Pollachi we have and Thiruvananthapuram bypass?

K. Venkatram Rao: Thiruvananthapuram is Rs.102 Crores, Polachi is Rs.55 Crores, Salem is Rs.69 Crores, Madurai is Rs.30 Crores, Pasighat is Rs.141 Crores, KP Sagar is Rs.7 Crores, and Yedula is Rs.25 Crores.

Sriram Kumar: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang from IDBI Capital. Please go ahead.

Mangesh Bhadang: Thanks for taking my question. Sir I have a couple of questions. First is you mentioned in your opening remarks that there is a reduction in back-to-back subcontracting resulting in better margins, so just wanted to understand how much of our total revenue say what we did in FY2019 we would have subcontracted and how it is likely to look up going forward?

K. Venkatram Rao: Actually Sir in FY2018 actually we did back-to-back subcontracting of around 23%, in FY2019 it was reduced to 9%. So we executing most of the projects on our own. In future there would not be much back-to-back subcontracting maybe to the extent of 5% that is all.

Mangesh Bhadang: Basically the margin that we have received that is predominantly because we have moved from 23% to 9% and the irrigation project that we had, which had higher margin?

K. Venkatram Rao: Higher margin yes.

Mangesh Bhadang: Sir my second question for the KSHIP project is the state government in right limbo, do you think there could be any problem, which can come to this project?

K. Jalandhar Reddy: Actually Sir the government has nothing to do with it because the contract is already signed and the financial closure documents are also on a way to be submitted. New contracts or the contracts that are going to be awarded and they may have some impact. Moreover, our project is a ADB funded project and already the agreement is signed. So there will not be any impact for us.

Mangesh Bhadang: Even for the remaining land acquisition the government will still go ahead?

K. Jalandhar Reddy: Yes, they will go ahead. It is a Departmental process, the government has nothing to do with it.

Mangesh Bhadang: Sir finally apart from roads what would be your target in that Rs.2500 Crores of order inflow that we are targeting what would the breakup would like in that?

K. Jalandhar Reddy: About say Rs.1000 Crores to Rs.1500 Crores would be from irrigation front and the rest from roads or vice versa can be.

Mangesh Bhadang: Sir you also mentioned that you are in negotiation for some of the irrigation, so is that the size of that project?

K. Jalandhar Reddy: Actually we are negotiating a 1200 Crores contract right now and one more which is Rs.800 Crores. We will be examining both and it will depend on which one will go through.

Mangesh Bhadang: The margins would be similar to what we saw for earlier or it will be lower?

K. Jalandhar Reddy: Since it is subcontracting the margins will be lesser, may be in line with our road margins.

Mangesh Bhadang: That is it from my side.

Moderator: Thank you. The next question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Subhadeep Mitra: So this is Subhadeep from JM, so what you mentioned is you are looking about 15% kind of a growth on the topline in FY2020 given that the first two quarters may not see so much of execution, so would that also imply then that a lot of the execution might actually shift into FY2021 and in that particular year we might see much higher execution and topline growth may be closer to 20% to 25%?

K. Jalandhar Reddy: Definitely because all these appointed dates could happen by Q3 or Q4 of this year, so definitely FY2021 could be the best year for us. That is what I am also expecting.

Subhadeep Mitra: Understood so one would assume that it would be at least 20% or more kind of growth?

K. Jalandhar Reddy: Definitely Sir.

Subhadeep Mitra: Accepted. Sir secondly in terms of your tax rate how much of MAT credit is still on books and when do you see yourselves moving into a full tax rate?

K. Venkatram Rao: Around Rs.75 Crores is MAT credit is there on books as of March 31, 2019. We expect that definitely in the next year there may not be much cash outflow due to this MAT credit and we expect that in the next two to three years we will utilize this credit.

Subhadeep Mitra: Effectively we are saying FY2020-FY2021 will still see a lower tax rate and probably closer to FY2022 is when you might enter a full tax rate am I right in understanding?

K. Venkatram Rao: Tax rate will be the same. Only I am talking about cash outflow because MAT has impact of the cash outflow. This year effective tax rate is coming to around 9%, which if we take out the deferred tax assets it will be around 18%. What we can say this 9% may go up to around 15% next year, but cash outflow would not be there due to MAT.

Subhadeep Mitra: I understand your point. Sir lastly on the order inflow side you have given a guidance of around Rs.2,500 odd Crores. My understanding was that NHAI might actually start giving out a lot more orders now given that we hear of more than a Rs.1 lakh Crore of tenders, which are live tenders, which are pending with NHAI, which was stuck because of the election period. So given that scenario how many live tenders have you bidded for or is there a upside to this guidance number that you are talking about we might see a higher order inflow there?

K. Jalandhar Reddy: Actually Sir here the target is only Rs.2500 Crores because the bandwidth of the company is limited to that extent. If there are good projects that coming in with higher margins then definitely we try to get to the extent of Rs. 1000 to Rs. 2000 of extra orders. But as of now really we are not thinking. Definitely you can always go with the new concept of tendering with the new equipment in one project and 70% of the project equipment cost in one project to be depreciated and aim for good margins. If you are still able to get a sufficient margin then bid it. If you get it then nobody could say no to it. Only in that case we have to accommodate.

Sudeep: When you talk about the constraints on the bandwidth of the company is it more related to the fact that if there are a lot more HAM bids coming out you do want to extend your balance sheet beyond a point is that the case, so if I were to see a lot more of EPC ordering happen then naturally things would change?

K. Jalandhar Reddy: Yes. That is what is happening.

Sudeep: Perfect Sir. That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Jiten Rushi from Bank of Baroda Capital Market. Please go ahead.

Jiten Rushi: Congratulations on a good set of numbers. Sir my question was on the capex for the next year so as you said you are taking your negotiations for two irrigations projects of Rs.1200 Crores and Rs.800 Crores then what would be the capex for these projects and they are coming from which state Sir?

S. Vaikuntanathan: Now the irrigation projects, are in negotiation stage and if it materializes then I think totally we have to plan for Rs.180 Crores to Rs.200 Crores of capex.

Jiten Rushi: Sir this negotiation is happening in which state Telangana only?

S. Vaikuntanathan: Telangana.

Jiten Rushi: Sir what about the client advances and retention in the books as on March Sir?

S. Vaikuntanathan: If you have any other question meanwhile we will go through it and then tell you.

Jiten Rushi: Sir just wanted to also know there is one more irrigation project in our book other than Yedula and KP Sagar, so I just want to know what is the closing order backlog of the Palamuru Rangareddy Project Sir?

S. Vaikuntanathan: That is in the closing stage, third irrigation project.

Jiten Rushi: That I know Sir I am asking about the Palamuru Rangareddy Sir I think it is a joint venture Sir you said right?

S. Vaikuntanathan: There are two in joint venture. One is Rs.35 Crores and one joint venture with PSK that is Rs.104 Crores Sir.

Jiten Rushi: Sir this Yedula also you had closing order backlog of Rs.18 Crores as on December?

K. Venkatram Rao: But now there are some variation has come actually. Now the closing order book is Rs.25 Crores.

Jiten Rushi: Sir can you just please help me with the previous question?

K. Venkatram Rao: Retention deposit around Rs.144 Crores is there on books Sir in current assets and liability side is Rs.116 Crores is payable to the different parties

Jiten Rushi: Sir I am asking about the client advances, mobilization advances?

K. Venkatram Rao: You are talking about the client advances including retention you are talking?

Jiten Rushi: Retention I got Rs.144 Crores I am asking about the mobilization advances, which is Rs.116 Crores you mean to say that?

K. Venkatram Rao: Rs.116 Crores is retention with what we held with our subcontractor that we have to pay to them.

Jiten Rushi: That is fine. I am talking about your retention is Rs.144 Crores right Sir?

K. Venkatram Rao: Our retention is Rs.144 Crores.

Jiten Rushi: And the mobilization advance or client advances, which you had is the closing client advances as on March if you can help me with that?

K. Venkatram Rao: Mobilization advance is around Rs.70 Crores actually.

Moderator: Thank you. The next question is from the line of Sharavan Shah from Dolat Capital. Please go ahead.

Sharavan Shah: Thank you and congratulations for a great set of numbers. Sir continuing the previous questions now depreciation how we look at for the quarterly going forward?

K. Venkatram Rao: Last year Rs.168 Crores of depreciation out of that around Rs.83 Crores is pertaining to our irrigation project, so you can say 50% depreciation is due to the irrigation project. In future if irrigation project is materialized then it will be in the same range, if suppose it is not materialized then it will come to normal of around Rs.30 Crores to Rs.35 Crores.

Sharavan Shah: Secondly Sir in terms of the 15% topline what we are speaking out of that how much would now we are expecting from the HAM and how many HAMs that we are expecting the execution to come in FY2020?

S. Vaikuntanathan: Actually two HAMs already the turnovers have started reflecting and another two as we have told one in June we will get the appointed date and another in July we will get appointed date. So hopefully all these four turnovers will reflected in this financial year and going forward the KSHIP will take some more time may be by this last quarter there is a chance of KSHIP coming and turnover being accounted. The other Palani project also may be either Q4 or the next year.

Sharavan Shah: No how much roughly? can we expect closer to 30% kind of execution combined all four put together whatever the EPC value they have?

K. Venkatram Rao: 25% will be there.

Moderator: Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Thanks for taking the question. Sir I do not know if you have answered this one, but just wanted to check how much was the revenue breakup between irrigation and roads in this year versus last year?

K. Venkatram Rao: This year it is around 30% of the revenue contribution from the irrigation.

Ankita Shah: And correct me if I am wrong you said the normal run rate for depreciation going forward would be Rs.30 Crores to Rs.35 Crores going forward on quarterly?

K. Venkatram Rao: Yes.

Ankita Shah: Sir EBITDA margins what range are we expecting going forward?

S. Vaikuntanathan: We should take approximately in the range of around 15.5% to 16% taking the input cost, increase and other things in the account.

Moderator: Thank you. The next question is from the line of Govind Agarwal from AlfAccurate Advisors. Please go ahead.

Govind Agarwal: Sir if you have answered about the debt so maybe I have missed it, but just want to understand your consolidated debt, which is around Rs.700 Crores how do you see this for FY2020 and FY2021 considering the orders you have and the execution and the capex of which you will take?

K. Venkatram Rao: Sir out of this if you consider this Rs.730 Crores of the debt, in the Walayar project we are just working out the various options for the monetization. If this materializes then the corresponding debt might go off the books. If you consider our HAM project actually because four HAM projects debt is around Rs.1500 Crores so we may expect that around 40% debt we are going to take in FY2020.

Govind Agarwal: 40% in next year?

S. Vaikuntanathan: Yes around 40%. iincludung HAM projects. All these three HAM projects we have already presold that means the debt will be in our books for only two- yearsafter COD , then afterwards it will be transferred to the buyer.

Govind Agarwal: Can you indicate the likely number for FY2020 and FY2021?

S. Vaikuntanathan: Rs.1500 Crores will be drawn in the next two. As we said that is 40% this year and the balance next year.

Govind Agarwal: Understood. Thank you very much.

Moderator: Thank you. The next question is from the line of Nitin Dharmawat from Aurum Capital. Please go ahead.

Nitin Dharmawat: Thank you for the opportunity. Just wanted to know what is the total consolidated debt now?

K. Venkatram Rao: Consolidated Debt is Rs.730 Crores.

Nitin Dharmawat: It remains almost the same and also wanted to know earlier also I asked this question by when we are likely to present the consolidated number instead of standalone number on a quarterly basis?

S. Vaikuntanathan: Yes now Sir from April 2019 actually it has become mandatory to publish the quarterly consolidation so from this year we willepresent the consolidated number.

Nitin Dharmawat: One final question when will we see the revenue coming in from the HAM projects?

S. Vaikuntanathan: It has already started coming. One project started in Q4. The second project started in Q1. We are expecting the other 2 projects also to start in this financial year.

Nitin Dharmawat: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

Bharanidhar V: Good afternoon Sir. So in the last five years we have seen this trend where NHAI and government after the first two years of awarding EPC projects gradually move the system to accept the HAM model though it was not to be preferred mode for the contractors. So what is the probability now since similar thing is happening with the government trying to focus on BOT so what is the probability now more than HAM than BOT would be the norm say if not in FY2021 Sir?

S. Vaikuntanathan: Though there is a talk of BOT it may not happen, only HAM is going to come and wherever the DPR has been prepared they have been done for HAM only. As far as KNR is concerned since we have got a strong balance sheet, HAM is also a preferred model for us because in the EPC model the rates are going very aggressivelyIIit is not matching with our expectation of returns. So we feel that the HAM is a good model and bankers are also safe in the model, but they have to come forward and try to understand the model and its implications. Going forward this model should continue.

Bharanidhar V: But say one or two years from now it is likely that BOT would come in again?

S. Vaikuntanathan: In the case of BOT model , already lot of uncertainty has happened in the last cycle, so I think developers are also not coming forward for BOT, so I think BOT model may not be a successful model.

K. Venkatram Rao: NHAI has also called for a meeting where they have asked all the developers to give their input, so we have given our inputs and based on that NHAI will take a call on which mode they will come out for bidding.

Bharanidhar V: Understood. Thank you. Thank you for answering my questions.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir this arrangement with Cube is only for these three projects? why Ramsanpalle project is not there in that?

S. Vaikuntanathan: The due diligence is going on. Final signing has to be completed. .

Parikshit Kandpal: The arrangement is that?

S. Vaikuntanathan: The arrangement is done project wise. We have already discussed for the other two projects as well and they also expressed their interest. They are also doing their due diligence, so we will come back to you once it is all finalized.

Parikshit Kandpal: Right now around Rs.180 Crores to Rs.190 Crores is what is the commitment so overall and a blanket commitment is how much is it Rs.1000 Crores or Rs.500 Crores?

S. Vaikuntanathan: There is no blanket commitment. It is project wise.

Parikshit Kandpal: This Rs.2500 Crores order inflow guidance, which you have given so does it include this Oddanchatram project, which you have already received this HAM project?

S. Vaikuntanathan: No. This Rs.2500 Crores, which we said are the new projects, which is yet to be tendered and yet to be received.

Parikshit Kandpal: Just lastly on the tax rate Sir this FY2020 and FY2021 what will be the effective tax rate?

K. Venkatram Rao: The effective tax rate this year was around 9.3% so we expect that it may go up to 15% because mostly whatever projects are there on that 80IA benefits is not there. We expect that FY20 it may touch around 15% and FY21 it will go up to 20%.

Moderator: Thank you. The next question is from the line of Vibhor Sighal from PhillipCapital. Please go ahead.

Vibhor Sighal: Thank you Sir. Sir just quickly you mentioned the equity investment that we would be requiring to do this year can you please repeat, you mentioned that we have already invested Rs.105 Crores in the projects how much are we looking to invest this year and the next year?

K. Venkatram Rao: This year we are expected to do further around Rs.90 Crores, so with this actually our commitment in these four HAM projects will be over. further equity in these projects will be invested by our investor.

Vibhor Sighal: In the three HAM projects we are only supposed to invest Rs.145 Crores right, which is the 50% of the total equity requirement?

K. Venkatram Rao: Yes correct, for three projects it is Rs.145 Crores.

Vibhor Sighal: And in the fourth project around Rs.100 Crores?

K. Venkatram Rao: Yes correct.

Vibhor Sighal: Right Sir and just last question what is your standalone debt number at the end of the year?

K. Venkatram Rao: It is Rs.264 Crores.

Vibhor Sighal: Sure Sir. Thank you so much for taking my questions. Wish you all the best.

Moderator: Thank you. The next question is from the line of Koundinya Nimmagadda from JM Financial. Please go ahead.

Koundinya N: Thanks for taking my question. Sir I just want to understand how the capex schedule will be going ahead in FY2020 and FY2021?

S. Vaikuntanathan: This year it is being planned around Rs.200 Crores and next year we will see because the next year budget is yet to be prepared, but for this year we have prepared for around Rs.180 Crores to Rs.200 Crores of Capex.

Koundinya N: Sir on the HAM equity front I guess we are supposed to invest under Rs.200 Crores right?

S. Vaikuntanathan: If you see for the entire four projects the total equity requirement is Rs.410 Crores approximately. Three projects we have signed the agreement with the cube, 49% they will be investing subsequently. We have to invest 51%, which we will be completing by this year end.

Koundinya N: Total will be by year end?

S. Vaikuntanathan: Yes.

Moderator: Thank you. The next question is from the line of Sharavan Shah from Dolat Capital. Please go ahead.

Sharavan Shah: Sir in terms of the old projects by this year end, which projects do you think still to be remain to be executed in FY2021 or can we assume 80% to 90% of the old projects apart from the existing HAM projects would be over by FY2020?

K. Venkatram Rao: Yes mostly if you see our order book, The orders pertaining to pure EPC work is around Rs. 1,350 Crores out of which Rs. 350 Crores we got the orders in Q1 this year. So out of the old orders of Rs. 1000 Crores, we can expect around 70-80% to be executed in this year that is FY20.

Sharavan Shah: Got it and in case if we see less orders in EPC and more in the HAM going forward and assuming there are only couple of players 3-4 players and we are seeing a very good IRR and the EBITDA margin are we open to take even two HAM projects in this year?

S. Vaikuntanathan: Now, it all depends upon the margin that we are getting and on the type of tenders that are coming up. Our model is somewhat different where we have already presold the HAM projects. So there are chances to look at more HAM Projects. We will definitely be looking at it in a favorable way.

Sharavan Shah: The capex that you said Rs.180 Crores to Rs.200 Crores does that also include that we will be getting both the irrigation projects or it excludes that?

S. Vaikuntanathan: If we get some of the irrigation projects then it may go up to Rs.200 Crores. Otherwise it will be in the normal range of Rs.130 Crores to Rs.140 Crores.

Sharavan Shah: That is it from my side and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H G Hawa. Please go ahead.

Faisal Hawa: My question is regarding to the old disputed receivables now lot of companies have actually discounted these receivables, which various pension funds and stuff and like that so are we having any plans for that, that is one?

S. Vaikuntanathan: You are talking about the claims?

Faisal Hawa: Yes the claims.

S. Vaikuntanathan: KNRCL got the award to the extent of Rs.538 Crores. The authorities may go to court and then it may take two to three years for us to receive the amount. But we have not take that into our books and we do not want to discount also because we do not have that requirement. As and when it comes we will receive the amount along with Interest from the date of award.

Faisal Hawa: Any of our BOT projects being sold off?

S. Vaikuntanathan: We have the process of exploring the possibility monitising Walayar project. we will communicate once the things have materialized.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we take the last question from the line of Preeta Sharma from HDFC. Please go ahead.

Preeta Sharma: Congratulations on a good set of numbers. Sir just a small thing the total equity requirement that you said is Rs.410 Crores right for the four HAM projects?

K. Venkatram Rao: All four projects put together it is Rs.388 Crores actually.

Preeta Sharma: out of that what will be KNR share because there is only one project that you have not presold to Cube as of now?

K. Venkatram Rao: Our total equity investment is Rs.190 Crores which is 51%

Preeta Sharma: Out of it Rs.105 Crores you have already invested?

K. Venkatram Rao: Yes out of Rs.105 Crores invested.

Preeta Sharma: Currently apart from this there is one more HAM project right that you have recently won for Rs.930 Crores of BPC?

K. Venkatram Rao: Palani we won recently NHAI project. We have to sign the concession agreement.

Preeta Sharma: Alright. That is all from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

S. Vaikuntanathan: Thank you everyone for your participation in our earnings call. In case of further queries you may get in touch with Strategic Growth Advisors, our investor relation advisor or feel free to get in touch with us. Thank you very much.

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