



KNR Constructions Limited.

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Sub: Transcript of Earnings Call for Q4 FY-23 held on 30th May 2023

Ref: Reg. 30 of SEBI (LODR) Regulations, 2015

Pursuant to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we herewith submit to the Exchanges transcript of earnings call held on 30th May 2023.

Please note that during these earnings call there was discussion regarding the value of order inflow targeted by the company and the management has indicated that the target for order inflow is approximately Rs. 4,000 crores to Rs. 4,500 crores. We would like to clarify that the management has erroneously mentioned that this target includes instead of stating excludes the recently won orders totaling approximately Rs. 2,000 crores. The order inflow target is over and above to recently won orders of approximately Rs. 2,000 crores. We request you to take note of the same while reading this transcript.

This is for the information and records of the Exchange, please.

Thanking you,

Yours truly

For **KNR Constructions Limited**

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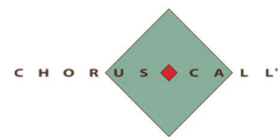
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“KNR Constructions Limited
Q4 FY '23 Earnings Conference Call”
May 30, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th May 2023 will prevail.

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**MANAGEMENT: MR. K. JALANDHAR REDDY – EXECUTIVE DIRECTOR –
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MR. K. VENKATRAM RAO – GENERAL MANAGER,
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LIMITED**



Moderator:

Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of KNR Constructions Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. 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 the conference call, please signal an operator by pressing star then zero on a touchstone phone. Please note that this conference is being recorded. Please note this conference is being recorded.

I now hand the conference over to Mr. S. Vaikuntanathan, VP Finance, KNR Constructions Limited. Thank you, and over to you, sir.

S. Vaikuntanathan:

Good Afternoon, everyone. Thank you for joining us today on the call to discuss the financial results for Q4 and FY '23. Along with me, I have Mr. K. Jalandhar Reddy, Executive Director; Mr. K. Venkatram Rao, General Manager, Finance and Accounts; and Strategic Growth Advisers, our Investor Relations Advisers. We have uploaded results and the investor presentation on the stock exchanges as well as on our company website. I hope everyone got an opportunity to go through it. We would like to touch on our recent key company updates and industry events, post which we will have a question-and-answer session.

The company has received 3 LOAs worth approximately INR2,005 crores as of below: One, Mysore to Kushalnagara with a bid project cost of INR 690.30 crores on HAM mode Package 5. Mysore to Kushalnagara with a bid project cost of INR650 crores on HAM mode Package 4. Number 3 is the Marrisudi to Somvarappadu with a bid project cost of INR665 crores on HAM mode.

Of these projects, the company has signed concession agreements for Mysore-Kushalnagara Package 5 and Marrisudi to Somvarappadu. The company has also received an appointed day for Chittoor-Thatchur Highway as on 25 January 2023. The company has received a provisional completion date as 2nd September 2022 for our Oddanchatram to Madathukulam Highway, which is 185 days ahead of schedule, includes 153 days of EOT. CRISIL has upgraded the rating of the company from AA minus positive to AA stable for long-term debt and reaffirmed as A1+ for short term.

Now I would like to share our thoughts on important industry developments. According to industry reports, NHAI has awarded a total of 6,003-kilometre projects in FY '23, which fall short of the target of 6,500-kilometre. Total value of projects awarded by NHAI worth INR1.26 trillion in FY '23, down 15% year-on-year. NHAI's highway construction pace increased 13% year-on-year to 4,882 kilometres in FY '23. In FY '23, a significant 54 percentage of the total project value was awarded to 5 states, namely AP, Bihar, UP, Jharkhand and Telangana.

As far as highway construction activity is concerned for FY '23 till February '23, the NHAI has constructed 8,054 kilometres of highway this financial year compared to the target of 12,000

kilometres of highway. The construction activity during FY '23 was impacted due to prolonged monsoon, which almost lasted till mid-November in some pockets of the country. Similarly, the NHAI has awarded 7,497 kilometres of highway projects on YTD basis. According to the industry reports as of April '23, the construction rate achieved is 17.4 kilometre per day, resulting in a total of 523 kilometres of highway built. This falls short of target of 45 kilometres per day. This deceleration in pace has raised concerns, particularly in anticipation of the slowdown during the monsoon season.

Despite the slight slowdown in the industry, NHAI has met a new milestone by laying 100 kilometres of new expressway within 100 hours during the construction of upcoming Ghaziabad-Aligarh Expressway in Uttar Pradesh. The construction uses cold central plant recycling technology, which reduces the carbon emission. Earlier in August 2022, the NHAI has set the Guinness World Record by successfully constructing 75 kilometres continuous single bitumen concrete road between Amaravati and Akola on NH-53 in a record time of 105 hours and 33 minutes.

Coming to the FASTag toll collections. The total FASTag toll collection, including state highway toll plazas grew 46% year-on-year basis to INR 50,855 crores for current year 2022 from INR 34,778 crores in CY 2021. The growth in toll collections is mostly attributed to a pickup in economic activities as well as revision in toll price. The NHAI has implemented its toll fee hike of up to 7% across the country, applicable from 1st April 2023.

NHAI has prescribed that infrastructure construction firms seeking bid to national highway projects built through public-private partnership must now possess credit rating of BBB or higher. This new requirement aims to ensure that only financially stable firms are selected for these projects. Builders who fail to meet the credit rating benchmark for a project will be required to provide a letter from their bankers or financial institution during the bidding process. Highway Ministry sets parameter for private construction entities for the first time.

Now coming to the key updates of the company. The percentage of physical progress as of March 31, 2023, for the HAM projects is as follows. Magadi to Somwarpet at 72.2%. Oddanchatram to Madathukulam is 90.1%. Valanchery to Kappirikkad is 26.4%. Ramanattukara to Valanchery is 24.5%.

During the quarter, the execution has primarily been driven by HAM projects. Out of the INR 732.86 crores revised equity requirement for all the 5 HAM projects, the company has already invested INR 296.35 crores as on 31 March 2023. The incremental equity requirement of INR 437 crores, to be infused, INR 260 crores, INR 160 crores and INR 17 crores for FY '24, '25 and '26, respectively. You can refer Slide number 27 of the investor presentation for details on each HAM projects.

The toll collection for the Bihar project, that is Muzaffarpur to Barauni in Q4 FY '23 and FY -- and financial year 2023 has been INR 10.24 crores and INR43.71 crores. The company has signed a concession agreement for KNR Srirangam Infra Private Limited for HAM projects on 22 May 2023. The company has signed concession agreement for KNR Ramatheertham Infra Private Limited for HAM projects at 27 April 2023.

Now coming to the order book position. As of March 31, 2023, the company has an outstanding orderbook position of INR 7,092 crores. EPC Road Projects and HAM projects constitute 77% of the total order book, while litigation projects constitute the remaining 23%. Client wise, 15% of the orderbook is from third-party clients and balance 50% is from captive HAM projects. The third-party order book are noncaptive orderbook which accounts for 50% of the total order book position is skewed between state government contracts with 36%, whereas 11% is from Central Government and balance 3% order book is from other private players.

The current order book position remains healthy and provides a clear visibility of execution over the period of next 2 years. A robust project pipeline and ready DPR, under the Bharatmala project should accelerate the project awarding activity going forward. The company is targeting order inflow of INR 4,000 crores to INR 5,000 crores for the financial year 2024.

The company is exploring various other opportunities in the infrastructure, such as urban development to diversify the orderbook. The company is also actively bidding in the western and central regions of the country such as packets of Maharashtra and Madhya Pradesh, etcetera. I will now request Mr. K. Venkatram Rao, GM, to present the results for the quarter and financial year ended 31 March 2023. Over to Mr. Venkatram Rao.

K. Venkatram Rao:

Thank you, sir. Please note that FY '23 standalone as well as the consolidated numbers include a profit on account of sale of balance 51% of the KNR Tirumala and KNR Shankarampet Project Limited and 100% stake of KNR Srirangam Infra Project to Cube Highway Infrastructure III Pte. Limited.

Let me take through the Q4 and FY '23 standalone financial performance first, followed by the consolidated financial highlights. I will start with quarterly highlights first. The revenue for the quarter grew by 63% year-on-year to INR 1,175 crores. EBITDA for Q4 FY '23 grew by 2% year-on-year to INR 211 crores as compared to INR 208 crores in Q4 FY '22. EBITDA margin in Q4 FY '23 stood at 18%. Net profit for the quarter was INR 128 crores as compared to INR 112 crores in Q4 FY '23, a growth of 14%.

Now coming to FY '23 highlights. The revenue for FY '23 grew by 14% year-on-year to INR 3,743 crores. EBITDA for FY '23 witnessed a growth of 6% to INR 721 crores as compared to INR 677 crores in FY '22. EBITDA margin in FY '22 stood at 19.3%. Net profit for FY '23 was INR 498 crores as compared to INR 381 crores in FY '22.

Now coming to the consolidated financial performance. I will start with quarterly highlights first. The company recorded a 13% year-on-year growth in total revenue from INR 1,102 crores in Q4 FY '22 to INR 1,245 crores in Q4 FY '23. EBITDA came at INR 245 crores in Q4 FY '23 as compared to INR 278 crores in the same period for the last year. EBITDA margin in the current quarter stood at 19.8%. Profit after tax stood at INR 141 crores in Q4 FY '23.

Now moving on FY '23 highlights on a consolidated basis. The revenue for FY '23 grew by 13% year-on-year to INR 4,062 crores. EBITDA for FY '23 witnessed a growth of 15% to INR 917 crores as compared to INR 798 crores in FY '22. EBITDA margin in FY '23 stood at 22.6%. Net profit for FY '23 was INR 439 crores as compared to INR 366 crores in FY '22.

Now moving on consolidated standalone balance sheet. The company continues to maintain a strong balance sheet. The working capital stood at 67 days compared to 63 days in the March '22. The standalone debt as of 31 March 2023 is almost 0. The consolidated debt as of 31 March 2023 is INR 610 crores as compared to INR 14,028 crores as of March '22. The net debt-to-equity on consolidated basis as of March 31, 2023, stands at 0.22x as compared to 0.55x as of March 31, '22.

With this, we can open the floor for question-and-answer. Over to you.

Moderator: The first question is from the line of Mr. Mohit Kumar from ICICI Securities. Over to you, Mr. Kumar.

Mohit Kumar: My first question is, sir, what would be our revenue guidance for FY '24. The growth was very strong in the first half of H1 FY '23, second half has been very tepid. Do you think we can grow at double digits based on the current order book in FY '24?

K. Venkatram Rao: Sir, definitely, we are expecting INR 4,000 crores plus is -- definitely, this is our internal target for next year FY '24. But definitely INR 4,000 crores plus will be our guidance actually for FY '24.

Mohit Kumar: Secondly, also on the order inflow. Last year, again, very tepid year for us. I think you barely got INR 2,000 crores of order inflow. But how do you see the pipeline as of now? And do you think there's any need to diversity to other segment and get some more order to ensure that we grow at double digit at the top line?

K.J. Reddy: Yes, sir, actually, current scenario concerned, National Highways Authority of India tenders are going at very unhealthy pricing. I can straightaway say it is unhealthy and due to which, I think it's overcrowded also today. There is a cutthroat competition which is happening.. So, in order to address our requirements of the order impact, we have been already sourcing projects in state governments and irrigation also we are getting a parcel and even urban infrastructure project like flyovers and all we are also getting.

Probably, we are also looking at railways and metros. So, with all that, we are open. It's an engineering-based business, so we are open to do that. So, we are now focusing -- actually, as of now, we have targeted around INR 4,000 crores plus order, out of which I think INR 2,000 crores plus is achieved. Another INR 2,000 crores to INR 3,000 crores, which we are under focus, I think that will not be a greater -- I think that will not be an impossible task for us. I think we'll be able to achieve in coming 3, 4 months. (please refer note 1 on the 1st page of this transcript)

Mohit Kumar: Yes, sir. Right, so you're targeting INR 4,000 crores, right? Out of which already received some portion in it till date?

K.J. Reddy: Yes. Yes, sir. INR 2,000 crores plus we received actually. (please refer note 1 on the 1st page of this transcript)

Mohit Kumar: Are you talking about those LOAs to those HAM order, which --

- K.J. Reddy:** Yes, LOA's we received and the 2 packages, that Mysore to Kushalnagara and the AP project.
- Moderator:** The next call is from Mr. Ravi Naredi from Naredi Investment.
- Ravi Naredi:** Again, I am shareholder since last 10 years. So, I can say these are satisfactory results as far as tough time is going on. Due to rains going on all over India, any work loss we are facing this time?
- K.J. Reddy:** Yes, sir. Actually, due to rains, I think last year, if you take it, I think from April to almost we have faced up to December. And most of our order being in the core rainy areas like Kerala and Mangalore, they are high rainfall areas. So, we have really suffered. This time, I think we had some rains in May, but I think it was under control. Still, we are able to make our target at least 80%, 85% we are achieving. So, kind of that it is continuing. I think hopefully, June month onwards, we are expecting monsoon also. There was news saying that 3rd onwards, the monsoon hitting the Kerala. So, it is likely to continue on that part, sir.
- Ravi Naredi:** Right. Sir, you have written in the Note number 9, company received an arbitration settlement amounting INR 323 lakhs and company share interest income is INR 759 lakhs. So, we must presume it will be around INR 11 crores revenue we received?
- K. Venkatram Rao:** That is in last year, sir, FY March '22 actually.
- Ravi Naredi:** March '22, it is. In the financial year '23, we didn't receive anything, right?
- K. Venkatram Rao:** No, no, no, sir. No.
- Ravi Naredi:** Likely to receive in near future, 6 months or 8 months, can you tell something?
- K. Venkatram Rao:** So, lots of arbitration awards are there, but they are at different stages with the courts.
- Ravi Naredi:** That is the reason I'm asking you. Any immediate you think it will come or...?
- K.J. Reddy:** Sir, yes, sorry to interrupt. There is a Vivad Se Vishwas. There is some circular which has come today, just today it has come. We are examining that. Definitely, that is under progress. I think NHAI or Ministry takes it very serious and implement that. Definitely, at least we'll realize our -- 50% of our claims will be realized.
- Ravi Naredi:** Okay. And what about this Andhra Pradesh -- Telangana government fund. How much is still due?
- K. Venkatram Rao:** Sir, we don't have exposure or anything in the Andhra Pradesh.
- Ravi Naredi:** Telangana.
- K. Venkatram Rao:** Telangana is there. As of date work done and including unbilled around INR 650 crores is due as of today.
- Ravi Naredi:** INR 650 crores. And old dues we have received, right?

K. Venkatram Rao: Old dues, almost we have received sir actually. So out of that, sir, around INR 500 crores outstanding was there at the 31 March 2023. And after that, we have certified around INR 200 crores billed and INR 60 crores in unbilled. And during -- from March till today, we have received INR 134 crores also. So old is almost we have received almost completely. Now these are the dues pending as of date.

Moderator: The next question comes from Mr. Devansh Goenka from Fusion Clothing.

Devansh Goenka: Yes, I just had a question regarding the speed of project awarding and the benefits that are coming to the company from the Bharatmala initiative.

K.J. Reddy: The Bharatmala tendering is happening. There's no this thing. But I think being market was very tight, there was a huge tender rally between December to March, but we were only successful in 3 projects, but I think not less than 70, 80 projects we have quoted because of the market being very, very competitive, we couldn't get much work sort of done. But otherwise, Bharatmala is being executed with high speed, there's no doubt in that.

Devansh Goenka: So, would you anticipate the market tightness to reduce over the next financial year? Or would it continue to be a slow market?

K.J. Reddy: Sir, actually, as we all know, that NHAI has placed a very big failure in last 2 years, I think 30 projects have been failed literally in deliveries or getting financial closure or in the mid of the project acquisition they have been parted, the stages were there in that. So, I think this is throwing some negative signal to the bidders, so that they control themselves to refrain on a healthy side bidding, then this would solve the problem. Otherwise, this is going to continue for another 6, 7 months. I believe this is the situation, sir.

Devansh Goenka: Okay. And just one last question. Sir, from your new segments, which you mentioned bidding in the rail segment and bidding in other new segments, what the revenue share you expecting from those segments in a period of, say, 3 years from now?

K.J. Reddy: So actually, I need around -- as of now, we have -- every year, we need to add about INR 4,000 crores to 4,500 crores. But every year, it is going to increase because the turnover is going up, so we'll be needing more order inflow like. So likewise, we have targeted last year around INR 4,000 crores to INR 4,500 crores we have targeted to take, out of which INR 2,000 crores is taken and another INR 2,500 crores is pending for us. (please refer note 1 on the 1st page of this transcript)

I think the order which we are targeting is quite possible from irrigation or from state highway projects which are now -- you have seen Maharashtra is flooded with the projects, this Maharashtra state government projects have also flooded, expressways are coming. And state governments are also calling up on a lot of outer ring roads, regional ring roads and major -- the city development projects are also coming up.

So, with all these I think we have a good takeover, where NHAI is having now unhealthy bidding. So, it's not that we'll keep quiet, but we'll be bidding. But the status ratio, which I'm not

expecting to be very good in NHAI. But I think the target what we have, I think it is quite possible to achieve in 4, 5 months' time.

- Moderator:** The next question comes from Mr. Vasudev from Nuvama.
- Vasudev Ganatra:** I just had a few questions. So first one is, what is the capex that we've done in Q4? And what is the capex that we're planning for FY '24?
- K. Venkatram Rao:** So, for this year, we did entire capex of around INR 140 crores in this year. Q4, we did around INR 40 crores. And for FY '24, we are planning somewhere between around INR 130 crores to INR 140 crores, same what we did in this year, same thing will be there for next year also.
- Vasudev Ganatra:** Okay. Got it. And is it possible to give the revenue split for Q4 between irrigation and the road projects?
- K. Venkatram Rao:** Yes, the revenue split for Q4 for irrigation is around 25.73%. And for HAM it is 40%. And for other EPC is 22% and back-to-back is around 12.5%.
- Vasudev Ganatra:** Okay. And sir, you said that our Telangana receivables currently is INR 650 crores, right?
- K. Venkatram Rao:** Yes, correct, sir.
- Vasudev Ganatra:** Yes. So, in Q4, what is the amount that we've received?
- K. Venkatram Rao:** In Q4 -- sir, what has happened that receivable as of 31 March is INR 502 crores. From March till today actually, we have received around INR 134 crores. For Q4 also -- we will check and give that data separately.
- Vasudev Ganatra:** Sure, sir, no problem. And so, you said that you're targeting around INR 4,000 crores to INR 5,000 crores of new orders for FY '24. So, is it possible to give a split between various segments like how much of that would be from roads and from urban and railways or if we are looking for any orders in FY '24 from segments?
- S. Vaikuntanathan:** See, majorly, we are concentrating on highway projects and as explained by ED also. We are also trying for the state highways and irrigation projects. So, the figures, the tenders are yet to be announced. So, it may take some more time for us to give the exact figure by which date we'll be bidding.
- Vasudev Ganatra:** Okay. No problem, sir. Then next question is on the irrigation payments. So, like what amount did we receive in Q4? And what is the irrigation debtors outstanding as of March?
- K.J. Reddy:** That's what sir, Q4 data, I will give you separately.
- Vasudev Ganatra:** Okay. No problem. And just lastly, sir, as far as I remember, we had some around INR 300 crores outstanding from the Cube deal which was pending approvals from NHAI. So, have we received that amount?

- K.J. Reddy:** This -- we have closed that transaction in this -- already 51% stake in the 2 projects and balance 100% stake in Srirangam. Entire deal is closed. We have received the entire amount.
- Moderator:** The next question comes from Mr. Nikhil Kanodia from HDFC Securities Limited.
- Nikhil Kanodia:** Congratulations on the decent set of numbers. Sir, I had 2 questions for you and one clarification. So, if I heard it correct, then you said that you are targeting somewhere around INR 4,500 crores of order inflow this year, of which INR 2,000 crores you have already achieved. Correct?
- S. Vaikuntanathan:** Yes. (please refer note 1 on the 1st page of this transcript)
- Nikhil Kanodia:** Sir, are we not kind of underestimating the targets because the thing is like when you are looking at other sectors also and like you have achieved 50% in just 2 days of the year, then I guess INR 4,500 crores is very much achievable. So, are we not kind of underestimating the targets over here?
- S. Vaikuntanathan:** We are not restricting particular orders or particular sector. We are on the lookout for different sectors. So, depending upon the receipt of orders from various sectors, we plan it. But overall, what we expect is up to INR 4,500 crores, INR5000 crores or we may be in the position to receive. It's also depending upon the number of tenders that the respective agencies like NHAI and other agencies are coming out with. Now in the last 3 months, suddenly NHAI tenders have slowed down. So, our overall order portion is that, but we will be open up for different sectors, and we will try to take within that target that we have.
- Nikhil Kanodia:** Okay. Sir, what is your bid pipeline currently?
- S. Vaikuntanathan:** See, actually, now we have to come out with some 5, 6 tenders in the month of May, which has already been postponed once again. So, we have wait for the date.
- K.J. Reddy:** Actually, the order inflow is concerned, there is almost 26 projects are on bid out from Maharashtra state government, the Pune ring road all are there other, and there is a big scope that is coming up. And Telangana government is also coming up with some irrigation projects, I think around, I think 4 or 5 projects are in package. And apart from that, NHAI projects always -- they have awarded quite a big number of projects in month of March. So, they were all bit occupied in making those agreements and calculations on those projects which have been bided out.
- So, I think that's why they postponed the tenders as of now. I think June onwards, the tenders will also be started for bidding. So, I think with all that and apart from that, in city works are also coming up with flyovers and all in many states. Like Karnataka has now just formed a new government, I think another couple of months we'll have to wait for their action to be taken. Like there is some bridges work which are coming up in Pune, Nagpur, even some bridges are coming up in Bihar also. NHAI is also -- Ministry is also calling some bridge works.
- MORTH is also calling on some 2 lane projects. So, all our there in the bucket. I think going forward, apart from that, metros also coming up. Metros we'll be focusing in coming period. Initially, we are investing to go with a joint venture partner and all. So, let's -- the scope is open,

sir. Let's try. I think the target is very less what we have because if we would have not taken the INR 2,000 crores order earlier, we would have been under little pressure. Now, I think we have some time because we need to take a quality order which we are looking at. Otherwise, just for taking order, I could have taken many more.

Nikhil Kanodia: Okay. What I feel is like when you said that so many opportunities are coming up, the INR 4,500 crores for annual target seems a little bit on a conservative basis, but never mind.

K.J. Reddy: Yes. (please refer note 1 on the 1st page of this transcript)

Nikhil Kanodia: Sir and if you could give us some guidance on that --

K.J. Reddy: Sir, actually, it is not that we will not be taking more than that. It's the minimum target what we had in that mind. See, once the market is bad, if we go with our minimum target, that is better. If you take projects which are high competition in the huge order in size, then there will be every scope that you will go wrong, and you will end up with lesser margins. So here, we are only talking of INR 2,000 crores because the market is as such now. (please refer note 1 on the 1st page of this transcript)

Nikhil Kanodia: Okay. Fair point, sir. Sir, on the working capital days, if you can give us some guidance, how much are we expecting it to bring it down by?

K. Venkatram Rao: It is right now 67 days. Last year, it was 63 days. So, we assume that it will be there somewhere between the same -- because now NHAI has already extended this whatever the circular, Atmanirbhar circular, they have extended till 31 March 2024. So, we expect that we could be able to maintain this working capital for the next 1 year.

Nikhil Kanodia: Okay. And sir, one more point that I wanted is, what is the margin guidance?

K.J. Reddy: Margin guidelines, I think EBITDA levels and all we were reporting 14%, 15%, 16% levels could be there. Hope for the best, sir. Internally, we are targeting as good as we have delivered. But various components which are now coming up is that we are hearing more about in the news that crude oil may go up and all that, and recessions are -- many, many countries are entering into recessions. So even equipment supplies, and the prices are likely to go up and input prices like cement, steel are also likely to go up. Maybe this rainy season they will be a little bit down. Every year it is like that. But once they bounce, they bounce like anything. So those things are to be factored in. So, with all that, I think I'm very confident to deliver those levels. We'll try our best.

Nikhil Kanodia: Okay. Sir, one last question, if I may. Sir, what is the irrigation receivable as of March?

K. Venkatram Rao: As of March, it's INR 500 crores.

Moderator: The next question comes from Bharani Vijay Kumar from Spark Capital.

Bharani Kumar: So, can you tell your sense of what will be NHAI's ordering numbers for FY '24, it was INR 1.26 lakh crores in '23.

K.J. Reddy: Those figures concerned; I think that figures are not with me. Maybe we will try to gather that and give you.

Bharani Kumar: So, put another way, 6,000 kilometers was lower than their expectations. So, any idea of their target for FY '24, given there is still more than 10,000 kilometers to be awarded in Bharatmala Phase I. Will it all be awarded before the election? Or how will it be in your sense?

K.J. Reddy: Sir, actually -- yes, sir, before election, there should be a rally, which we are thinking. But NHAI has not come up with any bigger scheme that how many they are going to build. But bid pipeline is very heavy, which we have seen because they called the bids and they're getting postponed. So as of now, I can see almost 70, 75 tenders are there. But they are supposed to happen in May and April, but they could not happen. Now they are passing through June and July, I believe. And those kilometers are comprising almost 4,000, 5,000 crores kilometers. So overall a year, they'll do a better awarding.

Bharani Kumar: Better than last year?

K.J. Reddy: Yes.

Bharani Kumar: Okay. Secondly, on the continuing tightness as you call it, in competition or in the NHAI, it's basically due to higher competition, etcetera. So, when do you think that this will ease -- or because most contractors like yourself are concentrating on diversifying. So, is it almost like the roads as an opportunity is getting more and more uninteresting for contractors? Is it like how it is, or you think maybe 1 or 2 more years, it will again get better?

K.J. Reddy: Yes, sir. It's quite a good question. Actually, as of now, we are under the impression that NHAI has margin, but the margins were not just like that, but the responsibility is also heavy. You take an EPC project, hardly, we have a margin about 5% or 4% on that after PAT and all. But the responsibility to maintain that stretch is for 10 years. In some places, it is 7 years. So, the responsibility is concerned, it is very heavy.

So, one get a margin today, they may not be able to maintain it because the maintenance kitty what they are giving some NHAI, what they are paying in the contract, it is very less. It is not even supporting the staff maintenance and labor maintenance. Materials too, it is another big deal. So that way concern every project should have some buffer fundings, so that tomorrow if there is a maintenance that come up, they should spend on it. Major maintenance, any of they are externally paying, but minor maintenance comes heavily which nobody can do anything about it. So that's the risk which we are carrying.

So, every time we bid, we counter all these factors and put our bids. Even HAM project is 15 years maintenance. So there people are thinking 5% margin is enough for them, but tomorrow even that many banks are complaining of this that the bidders are considering very less amount for the maintenance.

As NHAI is considering very small amounts, they are also started continuing those small amounts and telling the bankers it is the standard thing. So, I think this perception needs to be changed. So, to change, I think people should learn by experience that whatever they are making

-- are catering fund for maintenance, it is not enough, then the changes will come. I think most of the people have learned. I think they will also learn in future.

So, until this time, I think this bidding is going to continue like this or if they are all the bidders whoever want the project, they get it funded and the additional supply of bids are there, then only the market should go well. I think I'm not thinking in coming 1 year it is going to be having a better perception.

So first, however, how much ever you need, you could take it and that too -- with a better margin. I think coming 1 year, we should rely upon state government, not on national highway, according to me. But it's not that I'll keep quite. I'll be trying my best. If I'm lucky enough, I would get some projects at the margins which I'm expecting.

Bharani Kumar: Okay. So, to summarize, maybe this year again will continue to be like this for you and for other contractors?

K.J. Reddy: And I'm expecting that. It is my expectation, nothing else.

Bharani Kumar: Got it. So final question, when you're talking about the state clients now, of course, the NHAI as a client is better given the payment history, etcetera. But when we go to states, it gets a little tricky. So, which are these clients that you like to work with? You mentioned Maharashtra state government. So, is it MSRDC or any other?

K.J. Reddy: MSRDC is quite good in payments. Tamil Nadu HD department is quite good in payments. KSHIP and Karnataka Road Development Corporation is also good in getting all the projects. Odisha PWD is good. And Madhya Pradesh is coming out with projects. It's also a good one. Madhya Pradesh there is irrigation projects are also coming up. They are also good players, which have been -- I heard. So, I think Southern states concerned, quite good, sir. There is no problem.

Bharani Kumar: So, in all these only, I think Telangana you didn't mention, of course, because of our history.

K.J. Reddy: Telangana is mentioned, sir, once the election is over, then we will be able to know what it is. The election is very near. I think in the November month, the election will be over. So, if the same government is coming up, I think they'll be bullish enough to invest and pay in time. If new government come up, we do not know what's happening.

Bharani Kumar: Okay. So, if this new government comes up, is there any threat for our INR 1,500 crores of orders -- order book in irrigation that we have?

K.J. Reddy: No. Actually, these projects are almost 60% above executed. Even the worst-case we have considered last time that whoever have done 25%, those projects were cancelled in Andhra Pradesh. So, 60%, 50% above projects are not likely to cancel. If they cancel, they don't amount that bad, they will scrap the project. So that is very remote chance that anybody just for the sake of showing opponents have done wrong, they will scrap the public money. This is normally not going to happen.

- Bharani Kumar:** So, hoping for the best, all the rest, and we'll keep at it, sir.
- Moderator:** Our next question comes from Mr. Vaibhav Shah from JM Financial Limited.
- Vaibhav Shah:** Sir, when do we expect to receive the ADs for the 3 newly won HAMs?
- K.J. Reddy:** Sir, actually, according to schedule, it is around 5 months from the date of signing the agreement. But again, it depends on the land that is available. All the 3 projects which we have taken, they have -- they are all greenfield express highways. So, the greenfield highway is concerned, it is quite difficult to say when they will be able to achieve the land acquisition. Now current stage is 3D is published. I think they should go for further 4D and 3H.
- Vaibhav Shah:** Okay. And sir, what could be the expected equity investment in these 3 HAMs?
- K. Venkatram Rao:** We expect around INR 80 crores each, around INR 240 crores will be the investment. But definitely, that is subject to the year financial closure. So tentatively, it is around INR 240 crores.
- Vaibhav Shah:** Okay. And sir, we received AD for Chittoor-Thatchur HAM in Jan end, but the execution for the quarter was nil. So, any particular reason for that as execution?
- K. Venkatram Rao:** Because actually now because we have received in the month of Jan only. So, in the month of Jan only appointed it. So, there was no billing till March, but April -- so in this quarter, we will start the billing in this quarter.
- K.J. Reddy:** I think almost 14% to 15% progress is there on that project. I think the 10% threshold that we get -- the first start of payment from 10%. So, I think that was not processed before March. That's why this is not there. I think the April quarter, it will be there.
- Vaibhav Shah:** Okay. And sir, lastly, what would be your estimate for irrigation revenue in FY '24 and '25?
- K. Venkatram Rao:** Generally, irrigation revenue will contribute around 25% of order book. So definitely, '24, we are expecting somewhere around INR 1,000 crores, maybe around INR 900 crores to INR 1,000 crores actually. And balance will be the next year. If we are getting some further new irrigation projects as told by ED, then -- generally, irrigation is cutting between 25% to 30% in every year.
- Moderator:** Our next question is from Mr. Prem Khurana from Anand Rathi Shares.
- Prem Khurana:** Congratulations for the numbers. Sir, you spoke about some of these newer segments where we are going to venture into now because roads, the competition has been intense. But as I understand, I mean, even in some of these other segments, I mean there is competition. And when I look at the margin profile that these projects entail, I mean, some of the newer things that you identified are somewhat inferior to what we generally target with roads.
- And roads, we already have efficiencies and economies of scale, which is that, I mean, we are somewhat able to kind of optimize our numbers. But since these would be somewhat new

segment where I mean, we don't have much size as of now, how would you kind of look at margin profile when you're bidding for these projects?

K.J. Reddy:

Yes, sir. The first thing concerned is, major focus is given in highways. The rest of that metro and all, no doubt they have lesser margin. But there is a standard kind of margin per se. Now today, NHAI is not even giving 2%, 3% margins.

Some tender I have seen, which has gone about 42% less. So, at that point of time, how can you expect me that such tenders will give me some good results and what we are now getting from the other sectors like railways, we're talking about metros or flyover projects. So, these areas are -- okay, the -- they have some standard income kind of thing. Even they are lesser, but there is some standard in it.

Prem Khurana:

So, we are willing to settle for that?

K.J. Reddy:

Actually, the problem is any company cannot be comfortable in any one sector. Like if I'm looking at only metros, definitely, I'll not be able to make a good balance sheet. But I'm in irrigation, I'm in highway, I'm in flyover project. I'm also in metros and all that is coming up. So, the percentage of risk that comes on each sector is distributed and somewhere we get good, somewhere we get little lesser. So overall, the balance sheet will be good.

Prem Khurana:

And I think the recent past have we participated in any of these newer segments, I think in between, we were trying to get something in Lucknow on metro side.

K.J. Reddy:

Sir, actually, yes, sir, we tried that. After that, we didn't try because we were quite busy in NHAI projects. As of now, we couldn't get the bid, because early April -- May only we -- there was no bid. Otherwise, the flood of bids were coming from past 6 months, 5 months, one that we were working, and we couldn't get time to focus on them. Now we are focusing lets see, sir. I think the newer sectors and all we will only go with 10% to 20% of our business in that time, initially to start with.

Prem Khurana:

Sure. And also, I mean the highlight, I mean, you spoke about, I mean, targeting some new orders from Telangana on the irrigation side, at least with the orders that we have today. I mean, it's been -- although we are able to get our payments now, but then you took some time to be kind of able to stabilize in terms of payment cycles.

So where are we getting comfort from to go and bid for more projects there and also because of the fact that there are elections due right in November? And if you were to look at some of these instances that we've had in some of these states, like in Andhra and then now subsequently in Karnataka.

So does it make sense to go and bid for Telangana irrigation orders now because ultimately these will be state orders again. And with the existing, I mean, the payment cycle seems to be a little slower than our expected. Have you made any changes in the contract terms so that to kind of assure you of better payment cycle?

K.J. Reddy:

Yes. Actually, sir, that concern is that now what is happening certain amount which is getting pending. But looking at the margin size, they're good enough margin -- only because the Telangana government is not offering any mobilized advances. So, the serious players who want to do the project, they are only coming up and there is a quite sensible bidding that is happening only in the State of Telangana.

Second, sir, if you have little bit sustainability, I think these margins and payments are assured because Telangana being a richer state than any other, since this is the election year and the previous experiences were there on the diversification of funds towards the COVID management and all, so there have been certain backlogs. I think they are even trying to clear and even the pump house project, if they clear that loan issues and all, I think we'll be having free flow of payments coming in.

And most of it, I think we are quite confident that, okay, there can be 5%, 10% of the payments would be pending, but rest all is getting clear. So, some days, we will get clear with all our payments. That's what the gut feeling is there. But if you go into the other state and all, there's no guarantee of such. I mean just for comparison, I'm saying... But it can be a little bit risky also, can't say. But looking at the margins, it is a bit tempting.

Prem Khurana:

And just one last. So, our Palani project is already done and we completed 185 days ahead of schedule. So, any thoughts on monetizing this?

K.J. Reddy:

The process is going on, sir. The monetization process is going on. I think Cube have given their quotes and I think further study which is going on.

Prem Khurana:

Okay. So, EOD of 6 months should ideally be the day to kind of consider as early...

K.J. Reddy:

Yes, yes. Company has taken a policy to be asset-light. So, which is likely to continue for all the coming up years.

Prem Khurana:

Okay. And then not asking for the number, but then is it fair to think the valuations would have been somewhat better than the last transaction because your repo rates have gone up, bank rates have firmed up, which is where -- I mean, they are doing better than what these were doing, let's say when the repo rates were down.

K.J. Reddy:

Sir, actually, now what happens after due diligence gets completed and then the complete valuation is out, then only we'll be able to say what is the real outcome that you compare with the previous ones.

Prem Khurana:

No, I want to understand directionally. I mean, given the fact that the gap seems to have widened, right, I mean, in terms of bank rate of 300 and rate at which you are able to borrow, ideally, it should lead to valuation multiples which ideally could be better than what we could manage the last time.

K.J. Reddy:

I think it is better. Venkat, you just tell that.

- K. Venkatram Rao:** That's what they have quoted on it. We are working on that. It is under discussion. Definitely, once it is formalized, we will come back to you.
- Moderator:** Our next question is from Mr. Nikhil Abhyankar from ICICI Securities.
- Nikhil Abhyankar:** Most of the questions are answered, but you kept on going back to the same topic that the competition in the NHAI orders is very high. So as per you, sir, what are the measures that NHAI can take to reduce this competition while keeping all the serious players in the race?
- K.J. Reddy:** Yes, sir. Actually, NHAI is not taking any measure, sir. Because as of now, it is -- if I want to bid in any state government, so few of the projects I'm not getting qualified. Though I can qualify in NHAI for INR 3,000 crores ticket size or INR 4,000 crores ticket size, also I can get qualified here. The qualification criteria in NHAI is very, very liberal and has no sense. Any dam and dopes can come and take a bid here. So that is that the liberalized and due to which they are facing this problem.
- And second, the bank guarantees and all earlier, it was a bit higher. Now they're cutting down to 3%, 3.5%, 2.5%, whatever they did all that. So, sir, actually, NHAI is not serious -- not seriously considering making things better.
- Nikhil Abhyankar:** Okay.
- Nikhil Abhyankar:** Any discussions around reducing the HAM grant to 20% from the government side? That might reduce the competition...
- K.J. Reddy:** Yes, the discussion was there, and they continue to be quite positive on that. But I think it is that PMO level the decision was not taken.
- Nikhil Abhyankar:** Okay. So most likely not before the next year's election.
- K.J. Reddy:** Maybe, sir.
- Nikhil Abhyankar:** Okay. Sir, just a final bookkeeping questions, can you give me retention on UBR and mobilization advance?
- K. Venkatram Rao:** Yes. The retention money, it was INR 237 crores. And mobilization advance is INR 156 crores.
- Nikhil Abhyankar:** Unbilled revenue, sir.
- K. Venkatram Rao:** Unbilled revenue is INR 450 crores.
- Moderator:** Our next question is from Mr. Faisal Hawa from H.G. Hawa and Co.
- Faisal Hawa:** Sir, I'm actually sensing that probably we are still a little afraid of getting into industries like metro and other, where we will not have enough experience as of date. So is it because of -- we may get stuck in something in more unknowns that we are not venturing more into something else, because now our balance sheet is actually very strong, and we can probably do a few new ventures. So, is it because of that that we are not going?

And second, sir, as the projects that we have already completed like to the tune of almost 25% or 50%, are we looking to sell those projects also like we did last time where we sold much before the rest of the people, and I mean that is really sending us in good state at the balance sheet level?

K.J. Reddy:

So yes, sir, actually, it's not that we are a bit reserved in doing it. We are doing the cementing construction, similar as metros in Coimbatore flyover, and we did Salem flyover, that expertise we had. And the electromechanical works, nobody is doing themselves. Even track laying, nobody is doing that. There are agencies who are consulting the firms, they help in doing it. That's the scenario.

So, there is no big deal by which companies like us are restricting ourselves to go. It is only so actually this year, we haven't considered because you're right that we haven't considered this year because only the reason is that we were having a target about INR 4,500 crores minimum target because it's a tight market, we were expecting only to get INR 4,500 crores.

So, the pipeline was very good from NHAI only. So, we refined or we stayed on NHAI to strike our luck kind of thing. So, I think almost 70, 80 bids we have completed in 4, 5 months span. So, all that time, we were busy. So, we didn't do. I think not much considerable except BMRC, that is Bangalore Metro Rail project is concerned. Rest all other, there is no big deal which have come out also. So going forward, we'll look at it.

Faisal Hawa:

And are we okay for selling the 2 Kerala projects and one more project to Cube or somebody just much before the completion?

K.J. Reddy:

Actually, much before means that we are getting various offers from players, which we are now considering. I think as and when they get signed or it comes to solid conclusion, we'll definitely let you know on this. And we are considering to go asset-light as of now, and we want to go on asset-light.

Faisal Hawa:

can you give an approximate range of what is the free cash flow that we could generate this year assuming that we do a turnover of around INR 4,700 crores or so?

K. Venkatram Rao:

INR 4,000 crores of turnover, we could be able to generate -- we can generate around -- PAT plus depreciation will be somewhere around INR 550 crores.

Faisal Hawa:

So INR 550 crores free cash flow we can generate.

K. Venkatram Rao:

Yes.

Faisal Hawa:

And any chances of this Muzaffarpur toll road also being sold further?

K. Venkatram Rao:

Actually, we are -- it is there in our kitty to sale, but we are trying to get the investor. But because this project is due to -- there is some issue in the project as the adjacent stretch has not been completed. So that's why total revenue is not up to the mark. So, we are not getting the proper value for that. But it is under discussion. But so far, no investor has come further for that.



S. Vaikuntanathan: Already, the NHAI has awarded certain clients and also extension of concession, which we are now asking the NHAI to form a concession committee to take higher client value and also the concession period. And as we said, the discussion is going on. It may take some more time. So once -- we'll try to structure as a profitable project, then we'll sell it.

Moderator: Due to time constraint, that was the last question. I would now like to hand the conference over to Mr. Vaikuntanathan, VP, Finance, KNR Constructions Limited for closing comments. Over to you, sir.

S. Vaikuntanathan: Yes. Thank you all for joining us on this call. Please reach out to our investor relations consultant, Strategic Growth Advisers, or else directly, should you have any further queries. We can now close the call. Thank you.

K. Venkatram Rao: Thank you very much, sir.

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