October 22, 2024

To,
National Stock Exchange of India Limited
Listing Department,
Exchange Plaza,
Bandra (E), Mumbai – 400 051

Ref Symbol: **VASCONEQ**

To,
BSE Limited
The Department of Corporate Services
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai 400 001

Ref: **Scrip Code: 533156**

<u>Sub: Intimation of Revision in Ratings under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015</u>

<u>Ref: Credit rating by CRISIL Ratings Ltd (“CRISIL”)</u>

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in accordance with the said Regulation(s), we wish to inform you that CRISIL Ratings Ltd (“CRISIL”) (“Credit Rating Agency”) has informed us the following up gradation in Credit Ratings of Vascon Engineers Limited.

Facilities	**Existing**		**Revised**	
	Amount (in Crs)	**Ratings**	**Amount (in Crs)**	**Ratings**
Long Term Ratings (Fund Based Facilities)	INR 194.10	**CRISIL BBB+ Stable (Assigned)**	INR 194.10	**CRISIL A- /Stable**
Short Term Ratings (Non-Fund Based Facilities)	INR 530.90	**CRISIL A2 (Assigned)**	INR 530.90	**CRISIL A2+**

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed.

A copy of the Press Release issued by CRISIL in this regard is available on their website at the given below link:

https://www.crisilratings.com/en/home/our-business/ratings/company-factsheet.VASENGG.html

This is for your information and records.

For **Vascon Engineers Limited**

NEELAM PIYUSH PIPADA

Digitally signed by NEELAM PIYUSH PIPADA
DN: c=IN, postalCode=431203, st=MAHARASHTRA, street=JALNAMODIKHANANEAR MAHAKALI TEMPLE 431203, l=JALNA, o=Personal, title=2535, serialNumber=ceac60f9ab4db683410ab1428e7f5e48e156f8e0330c688c8d324d9a8d028f76, pseudonym=2535202306091721241153, 2.5.4.20=ed5811d88b69de32eec579daa40f905330715b240dc00583a32234ebd45f17e8, email=CSNEELAM90@GMAIL.COM, cn=NEELAM PIYUSH PIPADA
Date: 2024.10.22 12:50:02 +05'30'

Neelam Pipada
Company Secretary and Compliance Officer
Membership No. A31721

Encl : as above

CRISIL
Ratings

Rating Rationale

October 21, 2024 | Mumbai

Vascon Engineers Limited

Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'; Removed from 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	**Rs.725 Crore**
Long Term Rating	**CRISIL A-/Stable (Upgraded from 'CRISIL BBB+'; Removed from 'Rating Watch with Developing Implications')**
Short Term Rating	**CRISIL A2+ (Upgraded from 'CRISIL A2'; Removed from 'Rating Watch with Developing Implications')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Vascon Engineers Limited (VEL) from 'Rating Watch with Developing Implications'**.** The ratings has been upgraded to **'CRISIL A-/CRISIL A2+'** from **'**CRISIL BBB+/CRISIL A2' and has been assigned a '**Stable**' outlook to the long term rating.

The rating action follows the announcement of 100% divestment by VEL of its 85% stake in the subsidiary, GMP Technical Solutions Pvt Ltd (GMP). This was announced in the board meeting held on July 17, 2024. The transaction involves divesting 12,869 equity shares of GMP to Shinryo Corporation for an aggregate consideration of Rs 157 crore and gross equity value of Rs 185 crore. The transaction has been completed on October 10, 2024

The ratings upgrade reflects sustenance in the operational and financial risk profiles, driven by healthy execution in the engineering, procurement and construction (EPC) segment. However, in GMP, the operating margin was lower than expected at 3% in fiscal 2024 (against 9% in fiscal 2023) due to a rise in raw material cost which the company was unable to pass on to customers. Along with the shift in its unit from Himachal Pradesh to Punjab, this escalated other expenses.

Operating margin is likely to remain stable at 9-10%, on account of the cash-generating EPC business, supported by healthy order book of Rs 2,838 crore as on March 31, 2024, which is estimated at 3.7 times of its fiscal 2024 operating income, providing adequate revenue visibility over the medium term. Consolidated revenue (including EPC and real estate businesses) may increase 20-25%, aided by revenue from the EPC segment that is expected to reach ~Rs 820 crore in fiscal 2025. The rest will be contributed by the real estate segment aided by delivery from various projects in this fiscal. Healthy cash flow is expected from the real estate segment in fiscal 2025 with strong launch pipeline of saleable area of 0.10-0.14 million square feet (msqft).

In the real estate segment, the company is expected to have collections in the range of Rs. 170-420 crores over the medium term and has expected sales value of Rs. 1800 crores from new launches. The company received cash inflow of Rs 127 crore in fiscal 2024, slightly lower than previous estimates, due to some delay in project launches, which are expected to be launched in the current fiscal. In the EPC segment the operating income is expected to increase by 15-20% driven by a healthy expected order book in the range of Rs. 2500-3000 crores over the medium term. The operating margins in the EPC segment are expected to be steady in the 9-10% range over the medium term.

The financial risk profile remained stable, with gearing of 0.19 time and total outside liabilities to tangible networth (TOLTNW) ratio of 0.88 time as on March 31, 2024 (0.19 time and 0.79 time, respectively, as on March 31, 2023). The interest coverage ratio was 7 times for fiscal 2024 (5.01 times in fiscal 2023). Over the medium term, gearing and TOLTNW ratio are projected to be under 0.2 time and 0.8 time, and interest coverage ratio over 7 times. The expected inflow is likely to strengthen the financial risk profile and debt will be lower than expected.

The ratings take comfort from the adequate buffer in both fund-based and non-fund-based facilities, after enhancement in the working capital limit. The ratings also factor in the extensive experience of the promoters, its healthy execution track record in the civil construction business and reputed clientele comprising primarily public sector and government entities, resulting in moderate counterparty risk. Unencumbered cash and equivalent stood at Rs 24 crore as on March 31, 2024. VEL is likely to maintain cushion of 10% of the working capital limit.

These strengths are partially offset by large working capital requirement, which is deployed in the real estate segment for joint development agreement (JDA) commitments, slow-moving inventory in some projects, some units kept as collateral and unbilled revenue and retention money in the EPC segment. The company is also exposed to intense competition and cyclicality in the EPC segment.

Analytical Approach
CRISIL Ratings has considered the consolidated financial and business risk profiles of VEL, along with its subsidiaries. The consolidation is on account of the common management and business synergies among group companies.

Subsidiaries of the company include Marvel Housing Pvt Ltd, Vascon Value Homes Pvt Ltd, Almet Corporation Ltd, Marathawada Realtors Pvt Ltd and Vascon EPC Ltd. Associates and joint ventures of VEL include Phoenix Ventures, Cosmos Premises Pvt Ltd, Vascon Saga Construction LLP, Vascon Qatar WLL, Mumbai Estates Pvt Ltd, Ajanta Enterprises and Vascon Developers LLP.

Interest-bearing mobilisation advances have been treated as debt.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description
Strengths:
Sustained financial risk profile marked by stable debt indicators
Operating income increased by 4% to Rs 1,061 crore in fiscal 2024 (including GMP division) (from Rs 1,021 crore in fiscal 2023), driven by the company's execution track record in the EPC segment. However, in the GMP business, the operating margin was lower-than-expected, at 3% in fiscal 2024 (against 9% in fiscal 2023) due to rise in input cost which the company was unable to pass on to customers along with shift in the unit from Himachal Pradesh to Punjab. In the real estate segment, cash flow of Rs 127 crore was lower than projected due to the lower-than-expected launch in fiscal 2024. Operating margin, however, reduced to 8.8% in fiscal 2024 from 12.9% in fiscal 2023. This is because higher project deliveries happened in the real estate segment during fiscal 2023, having margin of 17-22% as compared to fiscal 2024. In fiscal 2024, lower deliveries led to a decline in real estate revenue to Rs 54 crore from Rs 113 crore, resulting in lower contribution in margin from the real estate segment. This is supported by the EPC segment's steady execution, stable profitability and healthy accretion of reserve. Further, the presence of price-escalation clauses in most outstanding contracts in the order book partially reduces the exposure to raw material price volatility. With healthy accretion to reserve, VEL's networth increased to Rs 978 crore as on March 31, 2024, from Rs 908 crore as on March 31, 2023.

With divestment of GMP segment the operating revenue will include EPC and real estate segment only and the operating income is expected to ~Rs 950 cr this fiscal. The debt protection metrics are expected to remain healthy with TOL/TNW ratio of 0.8 time and interest coverage ratio of more than 7 times over the medium term. Furthermore, the company plans to raise Rs 125 crore through the qualified institutional placement (QIP)/rights issue/ preferential allotment route in this fiscal, which will further improve the financial risk profile and be a key credit monitorable.

Established position in the EPC (buildings) segment, supported by healthy order book and counterparty profile
VEL benefits from the established track record of the management in executing construction contracts for the infrastructure, real estate and manufacturing segments on EPC basis. The company also has strong technical capabilities and domain expertise in the construction and execution of complex projects.

The company had external orders worth Rs 2,838 crore as on March 31, 2024, and plans to continue focusing on government projects. Furthermore, almost 80% of the orders are derived from government projects, which lends visibility to uninterrupted cash flow, thereby providing assurance of stable operating performance over the medium term and supporting the business risk profile.

Weaknesses:
Large working capital requirement
The company's operations are working capital intensive, on account inventory in its real estate business, which has to be kept as collateral and due to unbilled revenue in the EPC segment. Inventory remained stretched over the past two years because of the strong backlog as a result of unsold real estate units, which stood at Rs 235 crore (excluding Rs 227 crore as land and development potential) as on March 31, 2024.

Further, the working capital requirement was high due to unbilled revenue which comprises ~10% of the order book and retention money which is 29% of overall debtors in the EPC segment. Receivables in the EPC segment, however, have been improving since the government bodies became the main counterparty for the EPC business. In EPC segment, receivables increased to 71 days in fiscal 2024, from 63 days in fiscal 2023 due to an increase in retention money. With a proportion of revenue from the EPC business expected to be stable over the medium term, receivables are likely to remain at 70-80 days in the segment. However, liquidation of inventory in the real estate segment will remain monitorable.

Exposure to risks related to saleability of real estate projects
Saleability and implementation risks in the real estate sector persist, as reflected by sharp fluctuations in real estate income, sales and collections over the past few fiscals. Considering the weak demand scenario in the past, certain projects have demonstrated limited progress such as Vascon Goodlife in Pune. Additionally, launches in fiscal 2024 were lower than expected such as the Santa Cruz project, which was expected to get launched in fiscal 2024, and is now likely to get launched in fiscal 2025. Going forward, the timely launch of real estate projects will be a key monitorable. The ability to liquidate real estate inventory of ~Rs 235 crore (excluding Rs 227 crore of land) as on March 31, 2024, delay in completion

or launch of real estate projects, and any additional debt taken to support real estate cash flow mismatch, will remain monitorable.

Liquidity: Adequate

Given the healthy profit margin and comfortable leverage, cash flow should be sufficient to meet the debt obligation and regular capex. Cash accrual, expected at over Rs 100-125 crore per annum, along with cash generation from the real estate business, will sufficiently cover yearly debt obligation of Rs 50-55 crore over the medium term.

Unencumbered cash and equivalents stood at Rs 24 crore as on March 31, 2024. Fund-based bank lines of Rs 63 crore were utilised at 41% on average during the 12 months ended March 31, 2024. VEL continues to focus on liquidity management by monetising the non-core assets. Furthermore, the company has plans of raising Rs 125 crore in this fiscal through the QIP/rights issue/ preferential allotment route; this will further improve the financial risk profile and be a key credit monitorable.

Outlook: Stable

The credit risk profile of VEL will continue to benefit from its healthy order book, improving operating performance, healthy capital structure and adequate liquidity.

Rating sensitivity factors

Upward factors

- Substantial scale up in both EPC and real estate segment, while maintaining the operating margins above 9.5-10% in EPC segment on a sustained basis
- Improvement in working capital cycle and liquidity

Downward factors

- Operating performance further deteriorates owing to lower-than-expected collections in the real estate business (below Rs 60 crore)
- Substantial delay in execution of orders or increase in real estate inventory, which may to increase in debt

About the Company

VEL, based in Pune, is engaged in the EPC, real estate construction and development businesses. The company was incorporated in January 1986 by Mr Vasudevan and commenced operations through construction of Cipla's Patalganga factory in Maharashtra in November 1986. Until 1998, the company was a real estate player, executing third-party contracts.

The real estate business of VEL comprises construction of residential and office complexes along with information technology parks, industrial units, shopping malls, multiplexes, educational institutions and hotels. Under the EPC segment, VEL has executed construction contracts. It primarily caters to government departments and authorities. The company, which has been engaged in the EPC and real estate businesses for over three decades, has delivered over 200 projects with an area of around 50 m sq ft.

Key Financial Indicators

Financials as on/for the period ended March 31	Unit	2024	2023
Revenue	Rs crore	1061	1021
Profit after tax (PAT)	Rs crore	72	99
PAT margin	%	6.8	9.7
Adjusted debt/adjusted networth	Times	0.19	0.18
Interest coverage	Times	7.01	5.01

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	460.33	NA	CRISIL A2+
NA	Cash Credit	NA	NA	NA	63.00	NA	CRISIL A-/Stable

NA	Overdraft Facility	NA	NA	NA	3.86	NA	CRISIL A2+
NA	Proposed Bank Guarantee	NA	NA	NA	70.57	NA	CRISIL A2+
NA	Proposed Cash Credit Limit	NA	NA	NA	20.14	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	30-Jun-26	24.29	NA	CRISIL A-/Stable
NA	Term Loan*	NA	NA	30-Jun-28	7.81	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	31-Mar-28	75.00	NA	CRISIL A-/Stable

**Guaranteed emergency credit line*

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Marvel Housing Pvt Ltd	Full consolidation	Subsidiary
Vascon Value Homes Pvt Ltd	Full consolidation	Subsidiary
Almet Corporation Ltd	Full consolidation	Subsidiary
Marathawada Realtors Pvt Ltd	Full consolidation	Subsidiary
Vascon EPC Ltd	Full consolidation	Subsidiary
Vascon Construction Saga LLP	Partial consolidation	Joint Venture
Cosmos Premises Pvt Ltd	Partial consolidation	Joint Venture
Phoenix Venture	Partial consolidation	Joint Venture
Ajanta Enterprises	Partial consolidation	Joint Venture
Vascon Developers LLP	Partial consolidation	Joint Venture
Vascon Qatar WLL	Partial consolidation	Joint Venture
Mumbai Estate Pvt Ltd	Partial consolidation	Associate

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	194.1	CRISIL A2+ / CRISIL A-/Stable	26-07-24	CRISIL A2/Watch Developing / CRISIL BBB+/Watch Developing	25-07-23	CRISIL BBB+/Stable	21-09-22	CRISIL BBB/Stable		--	--
			--	05-07-24	CRISIL BBB+/Stable / CRISIL A2		--		--		--	--
Non-Fund Based Facilities	ST	530.9	CRISIL A2+	26-07-24	CRISIL A2/Watch Developing	25-07-23	CRISIL A2	21-09-22	CRISIL A3+		--	--
			--	05-07-24	CRISIL A2		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	**40**	**CSB Bank Limited**	**CRISIL A2+**
Bank Guarantee	**100**	**The Federal Bank Limited**	**CRISIL A2+**
Bank Guarantee	**40**	**The Karnataka Bank Limited**	**CRISIL A2+**
Bank Guarantee	**204**	**State Bank of India**	**CRISIL A2+**
Bank Guarantee	**76.33**	**IndusInd Bank Limited**	**CRISIL A2+**
Cash Credit	**10**	**The Federal Bank Limited**	**CRISIL A-/Stable**
Cash Credit	**10**	**The Karnataka Bank Limited**	**CRISIL A-/Stable**

Cash Credit	43	State Bank of India	CRISIL A-/Stable
Overdraft Facility	3.86	IndusInd Bank Limited	CRISIL A2+
Proposed Bank Guarantee	70.57	Not Applicable	CRISIL A2+
Proposed Cash Credit Limit	20.14	Not Applicable	CRISIL A-/Stable
Term Loan	75	ARKA Fincap Limited	CRISIL A-/Stable
Term Loan	24.29	Aditya Birla Finance Limited	CRISIL A-/Stable
Term Loan*	7.81	State Bank of India	CRISIL A-/Stable

**Guaranteed emergency credit line*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Construction Industry
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Mohit Makhija Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 mohit.makhija@crisil.com Gautam Shahi Director **CRISIL Ratings Limited** B:+91 124 672 2000 gautam.shahi@crisil.com Maninder Singh Rating Analyst **CRISIL Ratings Limited** B:+91 124 672 2000 Maninder.Singh1@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') provided by CRISIL Ratings Limited ('CRISIL Ratings'). For the avoidance of doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for use only within the jurisdiction of India. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings provision or intention to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

The report is a statement of opinion as on the date it is expressed, and it is not intended to and does not constitute investment advice within meaning of any laws or regulations (including US laws and regulations). The report is not an offer to sell or an offer to purchase or subscribe to any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way.

CRISIL Ratings and its associates do not act as a fiduciary. The report is based on the information believed to be reliable as of the date it is published, CRISIL Ratings does not perform an audit or undertake due diligence or independent verification of any information it receives and/or relies on for preparation of the report. THE REPORT IS PROVIDED ON "AS IS" BASIS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAWS, CRISIL RATINGS DISCLAIMS WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR OTHER WARRANTIES OR CONDITIONS, INCLUDING WARRANTIES OF MERCHANTABILITY, CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisilratings.com/en/home/our-business/ratings/credit-ratings-scale.html