

Transcript

Conference Call of Vascon Engineers Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Raghu, moderator for this conference. Welcome to the conference call of Vascon Engineers hosted by MF Global India. We have with us today the management of Vascon Engineers Limited, Mr. R. Vasudevan, Managing Director, Mr. Krishnamurthi, Chief Corporate Officer and Mr. Santhanam, Chief Financial Officer to discuss Q4 FY11 results. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. Now I would like to hand over the conference to Mr. Dipesh Sohani of MF Global India. You may go ahead, sir.

Dipesh Sohani: Thank you and good afternoon everyone. On behalf of MF Global India, I welcome you all to this conference call with the management of Vascon Engineers to discuss Q4 FY11 results and the road ahead. I would like to invite Mr. Vasudevan for his initial remarks. Over to you, sir.

R. Vasudevan: Dear friends, good afternoon. I welcome you all once again for discussion on our fourth quarter results. Along with me, we have our senior management team members, Mr. Krishnamurthi and Mr. Santhanam. I am pleased to inform you, for the financial year 2011, we have crossed the 1000 crores landmark in revenue, which was a very dream benchmark which we had set. Our revenue saw a growth of 37% over the corresponding period last year, recording Rs.1054 crores. The EBTIDA at Rs.130 crores is around 12% of revenue and up by 19% over last year. The net profit at Rs.66 crores is also up by 25% over last year. EPC contributed about 706 crores to the top line, whereas 210 crores is attributed to the real estate segment. This is the first year of GMP consolidation and it has contributed Rs.99 crores to the overall revenue, since its acquisition in August 2010. As of 31st March, the company has consolidated net debt of Rs.258 crores and net worth of Rs.718 crores. The net debt equity as of March 2011 is 0.36. From this year the company recognizes revenue and development contract undertaken on progressive completion method and commences revenue recognition from the time the documents are of titled property is registered in the name of the customer, taking into account the materiality of progress.

Now, coming to details of EPC business. In EPC business, we have executed around 7 million square feet in FY11, out of more than 41 million square feet of overall construction portfolio. In the financial year 2011, we have completed construction of few marked niche projects, landmarks, which many of you will see. Ruby Mills, one of the tallest commercial building in Mumbai, a multi-level car parking building in the Terminal 3 Delhi International Airport, this car park is one of the largest in Asia. It's about accommodating 5000 car parked. The company currently has 90 projects, of which 66 are third party contracts. The order book for EPC business is consistently growing. In the current quarter, the company has added orders worth Rs.539 crores. Cumulatively we have added orders worth 1022 crores in FY 2011.

The inflow of orders has been strongest in the fourth quarter. The cumulative order book for our EPC business stood at 4140 crores, with an order backlog worth Rs.2798 crores. Out of the total order backlog, Rs.1460 crores is from third party. In addition to the Adani project in Ahmadabad, the company has acquired other major order worth Rs.131 crores for construction of hospital in Mumbai from NBCC and another order worth Rs.110 crores from Akshaya group for construction of Residential projects in Chennai. These projects will be developed in the next two years.

Now, coming to the real estate business. We have a total of nine residential projects under construction, cumulating to 2.19 million square feet, out of which the company has sold around 1.38 million square feet, amounting to Rs.528 crores, of which attributing to Vascon is around 303 crores. Out of the total Vascon attributable revenue, we have already collected Rs.116 crores. The company in FY12 is planning to launch eight more residential projects with developable area of 4 million square feet. With these launches, total area under construction will be around 6.6 million square feet in the real estate field.

Hospitality. Company has commenced operations of two prominent hotels Hyatt and Holiday Inn in Pune. Hyatt became operational in November 2010 and Holiday Inn has just commenced. The Company has sold out one of its hotel property, Vista do Rio in Goa. The total inflow of sale proceeds from this is about 15 crores.

GMP acquisition. The synergy benefits have started to accrue to the company and have led to bidding of complete turnkey projects. GMP has contributed Rs.99 crores in revenue since its acquisition. And GMP has also started making provisions to do much of the work needed for Vascon Construction projects like doors and windows.

Key company updates. Recently, company has formed a Limited Liability partnership with Renaissance Micro Infrastructure and Realty Private Limited for constructing an industrial park and logistic park at village Vashere in Bhiwandi. The total area of the project is 16 million square feet and the value is about 1000 crores. And this is scheduled to be completed in a span of five years. This is one of the biggest single projects being attacked by Vascon. And also, projects in a different field slightly from what we had, so we have added this bandwidth in this year. Also, one of our SPV has also leased about 1,06,000 square feet in Hinjewadi, Pune to the Income Tax department for their centralized processing center. The Board has recommended a final dividend of Rs.1 per share, which is 10% on equity, face value of Rs.10 each.

I would now like to open the floor for question and answers.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

The first question comes from, Mr. Ashish Tiwari from Religion Media.

Ashish Tiwari: Hi Mr. Vasudevan, how are you doing?

R. Vasudevan: I am good.

Ashish Tiwari: I have been trying to reach you for some time, but I haven't been able to reach you. I believe you were travelling.

R. Vasudevan: Yeah, on and off, yeah.

Ashish Tiwari: Yeah, I have some queries on the industrial park business that you mentioned about. Any specific reasons why you thought that this would be a good vertical to get into?

R. Vasudevan: See, as a strategy it has always been our endeavor to add bandwidth to our activities in the area of specialization for us, which is our building construction. And this is one area where we feel there is great potential and the model can be repeated in different locations of the country. Also, there is good amount of incentive scheme offered by Government to promote all these type of activities. And generally I think it's an area which is neglected. And you find mushrooming of unorganized logistics park or unorganized small industrial shed, then the working conditions become very, very poor. We felt that this is an area which has definitely got potential and like I can say, this is akin to what people generally talk of low cost housing, upper double housing. But, I feel this has more potential than an upper double housing, because it's a need. It's very difficult for a 5000 square feet entrepreneur to start from, everything, right from power, water and every connection and the transportation. Here in this park we are providing all these facilities to entrepreneur, who needs to only focus on his work related activity. All these infrastructure will be provided to him.

Ashish Tiwari: Okay. And what is the total area of this development? You said 16 million square feet for the saleable area.

R. Vasudevan: Correct.

Ashish Tiwari: And how big is the land parcel?

R. Vasudevan: The land parcel, it is about more than 250 acres.

Ashish Tiwari: 250 acres.

R. Vasudevan: Yeah.

Ashish Tiwari: And all of it will be developed in the next five years?

R. Vasudevan: Yes, all of it we are developing. We are also acquiring more as well.

Ashish Tiwari: Okay, acquiring more in the sense, how much?

R. Vasudevan: Not we, we are basically only doing the construction part of it. But, the owners are also in the process of acquiring additional.

Ashish Tiwari: The Renaissance is basically acquiring.

R. Vasudevan: Yeah, correct.

Ashish Tiwari: So, what will be the total cost of this particular land parcel that will come on to the LLP book?

R. Vasudevan: We won't bring land into the LLP book at all. It's an EPC business.

Ashish Tiwari: Okay, okay. And also could you tell us, what is the LLP called?

Management 1: VR LLP.

R. Vasudevan: Vascon Renaissance.

Management 1: VR LLP.

Ashish Tiwari: VR LLP, okay. And in terms of, is there any monetary exchange that also happens to the Renaissance Micro? Like you said, you are only the EPC partners.

R. Vasudevan: No, there is no monetary exchange except the construction cost being.

Ashish Tiwari: So, they will also share the construction cost?

R. Vasudevan: Yes, yes, yes.

Ashish Tiwari: Okay. And is there any specific sector or business that you will target this logistic part or you are looking at across the banner?

R. Vasudevan: No, it will be across the banner.

Ashish Tiwari: Okay. And by when do you, in terms of spaces, you will launch it, in the first few years you will launch at least about 5-7 odd million and that's how you will do or you want to launch the entire 16 million?

R. Vasudevan: It's a mature project, that's why we are talking of five year completion. The owners have already done good amount of infrastructure to begin with. And the tie up is to strengthen that infrastructure, because the response to their effort has been fantastic and they want to achieve this completion within the time period of five years. So, they need and the urgency is there and that is why we have also tied up and it's an area of experience which we will also learn things from to set up this facility actually.

Ashish Tiwari: So, as far as leasing and...

R. Vasudevan: Yes, that leasing and sale will be done directly by the owner. Hello.

Moderator: It seems Mr. Ashish's line got disconnected sir. I am taking the next question sir.

R. Vasudevan: Yeah.

Moderator: Next question comes from Mr. Avi Mehta from IIFL.

Avi Mehta: Sir, thanks for taking the question. Just one thing, I wanted to understand what was the collection in the quarter or in the year if you have that number? Because, you indicated that 303 crores revenue is our share, out of

which we have collected 116 crores till date, would you be able to give the number for the year or for the quarter, if that's available or for whichever if you would give the numbers for that?

- R. Vasudevan:** One second. We will just give.
- Management 1:** 39 crores.
- Avi Mehta:** In the fourth quarter?
- Management 1:** No, 25.82 crores in the fourth quarter.
- Avi Mehta:** 25.82 crores in the fourth quarter and 39 crores in the entire year.
- Management 1:** No, no. 39,000 is the square foot sold and 25.82 crores is the collection.
- Avi Mehta:** And sir, what was this last quarter, if you could have that number as well, if you could give me?
- R. Vasudevan:** This is the last quarter number only they have given.
- Avi Mehta:** Sorry, I meant the third quarter.
- Management 1:** Fourth quarter.
- Avi Mehta:** Sir, the third quarter. I meant the third quarter. I just wanted to understand how has it changed from quarter on quarter. If you could give that number.
- Management 1:** We will give you offline.
- Avi Mehta:** No problem sir. Sir and what is the debt cost currently, our debt?
- Management 1:** 12.9.
- Avi Mehta:** 12.9%. And sir, what is the FY12 repayments?
- Management 1:** Repayment?
- Avi Mehta:** Yes sir.
- Management 1:** Current year? FY12?
- Avi Mehta:** Yes sir.
- Management 1:** 30 crores.
- Avi Mehta:** Around 30 crores. Okay sir. That will be all sir, thanks a lot sir.
- Moderator:** Next question comes from Mr. Manju Bhashani from Sundaram Mutual Fund.

Manju Bhashani: Good evening Mr. Vasudevan. Congratulations on a set of good numbers.

R. Vasudevan: Thank you.

Manju Bhashani: We probably joined the call a bit late. So, just wanted to understand a bit in terms of what are the kind of launches we have planned for the current year and if you could just give us idea of the launches in the different geographies that will be helpful sir.

R. Vasudevan: See, the company has planned eight residential projects with developmental potential of 4 million square feet. With these launches the total area under construction will be about 6.6 million square feet. Location wise and project wise, we are planning in this financial year 2012 Chennai projects. The launch would be total of the first phase which will be 1.5 million square feet. The project in Coimbatore, it will be about 8 lakhs square feet. There is a project in Hyderabad; which is about 6 lakhs square feet. Then we have a project in Madurai, about again 5 lakh square feet in the first phase. Then one project in Malegaon in Pune, near Pune, that's about 2,40,000 square feet. And extension of a phase project in Nasik, which is Vista, that's about 1 lakh square feet. Then we have two small projects of 1 lakh square feet in ELA, which is in Hinjewadi, Xotech which is in Hinjewadi, ELA which is in Hadapsar.

Manju Bhashani: Okay. And in terms of commercial space, could you give us some color on the kind of sales we expect in the current year or leasing activity that you expect?

R. Vasudevan: We have just leased this about a month ago, which the documents are being signed now, is about 160,000 square feet of building in Hinjewadi, which is an IT park. Apart from that, we have not launched any commercial projects in the last year. So, it's only those projects which we had launched in the previous year which are under completion and handing over.

Manju Bhashani: Okay. And sir, what is the kind of cash generation that we expect from sale of built up commercial property that we may have in the current year?

R. Vasudevan: See, given the building which we have leased out in Hinjewadi, we are committed to sell that building, where we should get in a revenue of 40 crores, our share would be about 20 crores. The other project which is in the handing over phase are commercial, which is about 2½ lakhs square feet, our Weikfield, last phase of the building, which we had finished completion in March 31st and handing over now. That will bring us, that's presold. 50% of that revenue should come to us in this period, because we have given them some period of time to lease out the building site.

Manju Bhashani: Okay. And sir, we have fair bit of land parcel in Thane, so when do we see some progress in terms of launches there? Is there any issue which is holding this back in this market?

R. Vasudevan: Yeah, Thane land, it's a raw land as I have been telling. It has got to be, the accumulation of the entire piece is happening. We have acquired about 105 acres plus...they are in position with us, we need to acquire some in between portions also to make it integral completely. And also we need to

get conversions happening there. It's a long process for us before we actually see construction on that site.

Manju Bhashani: And what's the kind of capital invested in that Thane project till now from the balance sheet?

R. Vasudevan: 28 to 30 crores I think approximately.

Management 1: From our side.

R. Vasudevan: Our side. Total would be about 55, but we are 50-50 partner in that project. We have contributed about 25 to 28 crores.

Manju Bhashani: Okay. And how do you see the demand on the real estate project sir? Is there any kind of slowdown that you are seeing in some profits?

R. Vasudevan: Some locations where there have been excess capacity, there could be some slowdown, especially because it will take some time for this interest impact psychologically to be taken by people. But, the range of housing where we are going in, it is over on a need base. Our average selling price is around 3200 to 3500 square feet. All the eight projects which we are launching, they are all priced at around that price. So, we don't expect great resistance. We have planned it in phase wise and we will move it in phase wise based on what response we get in those projects. And it's not...none of these projects which we are launching, except a few of them where we have put money; it's all joint venture projects on land. So, based on these responses is how we will do further investment and growth.

Manju Bhashani: Fine sir. And in terms of the Tamil Nadu Government project on the MLA hostel etc. so do you expect any progress there after the change in Government or do you think there could be some delay in completion of the project there?

R. Vasudevan: It's too early to say today. Till today work is going on at the same speed as what we were doing before. But, with the change, we don't know. We are also keeping our fingers crossed very frankly. But, I think it will be more, again these are need based projects, there could be some temporary hiccups, but I think it will go on stream, because substantial work has been completed. It's not as if it can be scrapped off.

Manju Bhashani: This is the MLA hostel you're building.

R. Vasudevan: It's not the MLA hostel, it's the secretariat building.

Manju Bhashani: Building itself.

R. Vasudevan: Yeah, the Secretariat building, not the assembly building.

Manju Bhashani: Okay. Thank you very much sir.

R. Vasudevan: Thank you.

Moderator: Next question comes from Mr. Anuj Agarwal from IDFC Mutual Fund.

Anuj Agarwal: Good evening Mr. Vasudevan.

- R. Vasudevan:** Good evening Anuj.
- Anuj Agarwal:** Sir, just wanted to understand EBITDA margins which you have from third party contracts and from your own contracts, what sort of EBITDA margins do you have?
- Management 1:** About 12%.
- Anuj Agarwal:** Sorry?
- Management 1:** About 12.5.
- Anuj Agarwal:** For both the contracts?
- Management 1:** Yeah.
- Anuj Agarwal:** They are similar?
- Management 1:** Yeah, (inaudible) basis only, only internal contracts.
- Anuj Agarwal:** Okay. And sir regarding the hotel revenue, revenues from the hotel, last time also it was 9 crores rupees and we had around 4 crores from it as income, profit before tax. But, this time it's almost zero, so any particular reason for that? The (conversation overlap) I believe from hotel.
- R. Vasudevan:** Can you repeat the question?
- Anuj Agarwal:** The PBT from it is around zero this time, despite 8.76 crores of revenue.
- Management 2:** Two big hotels have started functioning.
- Management 1:** So, the initial costs are quite high, that is why. Hyatt, pre-operative expenses are quite high, so that is why. Six months (inaudible) they start and train the people.
- Anuj Agarwal:** No, I was talking about the revenue.
- Management 1:** Yeah, revenue is there, cost is also high.
- Anuj Agarwal:** But, last year also there were some 9 crores and presently it's only 4.3. So, you are saying, new operations new hotels have started, but they are not giving that much revenue is it?
- Management 1:** Correct, correct. They have just started in the fag-end of the accounting year.
- Anuj Agarwal:** Okay, okay, understood. And sir about the real estate component, what is the typical margin you generally have on real estate?
- Management 1:** Real estate generally gross margin is about 25 to 30.
- Anuj Agarwal:** Okay. So, the margins have declined, that's because of the project completion which you have been following?

Management 1: That's why, plus recently two big projects have been launched Windermere and Ajanta.

R. Vasudevan: Or (not sure).

Management 1: These two expenses have been (inaudible).

Anuj Agarwal: Okay, understood. Also, can you just throw some light on the sundry debtors portion also? I think they have increased?

Management 1: Yeah, if you see, this is including our work in progress. So, typically what happens, for one month to one and a half months, work in progress is (inaudible). Then there is a billing, billing also about one to two months (inaudible). So, if we add both, so we have come to about three months to four months. We have been taking steps. Normally it should be around three months, but this time it has gone up to four, we are taking steps to control that.

Anuj Agarwal: Okay, that's it from my side. Thank you.

R. Vasudevan: Thank you.

Moderator: Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Dipesh Sohani for closing comments.

Dipesh Sohani: Thank you Mr. Vasudevan, Mr. Murthi, Mr. Santhanam and all the participants for sparing time for this conference call. Thanks.

R. Vasudevan: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.