



“Vascon Engineers Limited”

August 12, 2011





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Moderator: Ladies and gentlemen, good day and welcome to the Vascon Engineers Limited Q1 FY'12 results conference call hosted by MF Global Sify Securities India Private Limited. As a reminder, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Vascon Engineers are Mr. R Vasudevan, Managing Director, Mr. M. Krishnamurthi, Chief Corporate Officer and Mr. D. Santhanam, Chief Financial Officer. At this time, I would like to hand the conference over to Mr. Dipesh Sohani from MF Global India. Thank you and over to you Sir.

Dipesh Sohani: On behalf of MF Global India I welcome you all to this conference call with the management of Vascon Engineers to discuss Q1 FY'12 results and the road ahead. I would like to invite Mr. Vasudevan for his initial remarks, over to you sir.

R. Vasudevan: Good afternoon friends. I welcome you all once again for a discussion on our Q1 results. Along with me we have the senior management team members Mr. Krishnamurthi and Mr. Santhanam. We are pleased to inform you that this quarter we have received largest EPC order of 1100 Crores for development of industrial Park. This quarter also saw highest quarterly order intake of 1,458 crore; however, the quarter saw significant challenges for order execution. We have to stop construction of 2 of the EPC projects, Tamil Nadu assembly building and a commercial project in Mumbai developed by HDIL. The last two to three months of constructions on these projects which has resulted in loss of revenue of approximately 60 Crores in Q1 2012, hence our revenue and earnings for the quarter declined significantly.



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Financial highlights - our revenue for the current quarter is Rs.184 Crores, 11% lower than the corresponding period last year with the revenue being 206 Crores. The EBITDA is 22 Crores and the net profit declined to 2.32 Crores for the quarter. EPC contributed Rs. 125 Crores to the topline whereas Rs.25 Crores is attributable to real estate segment while GMP contributed to 28 Crores to the overall revenue. The interest expenses were higher in Q1 FY'12 mainly due to lower debt to corresponding period previous year and increase in leverage interest rates increase of around 200 basic points in the last one year; however we have reduced Rs.90 Crores debt at Vascon consolidated level in Q1 FY 2012. Debt taken for holiday in property has been pushed to the SPV holding the asset wherein Vascon has 27% equity share. The consolidated debt at Vascon has reduced from Rs.370 crore in March 2011 to 280 crore in June 2011. On the operation side we would like to highlight that we have shifted major resources from two projects to other construction sites. This quarter we have commenced work at projects such as Shantigram, the residential project developed by Adani Group in Ahmedabad. NBCC Hospital in Lower Parel and a residential project in West Bombay in Andheri. We expect these projects will help us to achieve the average execution due to those two projects in the coming quarters.

Moving on to the details of our business EPC business has seen continuous addition of bigger orders taking our third party order backlog to about 2,824 Crores. The current quarter has recorded an order inflow of Rs.1,458 crore the highest order addition in the history of Vascon. The major order acquired during the quarter was the construction of logistic park worth 1100 Crores with the Renaissance group. The project will be constructed by LLP with Renaissance Group wherein Vascon share being 65%. The logistic park located at Bhiwandi near Mumbai will have about 20 million square feet to be constructed over a period of five years. The scope includes construction of various warehouses, industrial building, roads, sewerage layout and various related infrastructure work. As of June 2011



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the cumulative order book is 5165 Crores first time it crossed 5000 mark and the order backlog is about 3850 Crores out of which Rs.2824 Crores are third party EPC orders. Superior construction continues, continuous order backed and execution capability of 10 million square feet per year within timeframe reaffirms our commitment towards our EPC business.

Now on real estate business the company in Q1 FY'12 launched Xotech residential project with developable area of about 0.12 million square feet. With these launches the total area under construction in residential segment will be about 2.3 million square feet. This quarter we have sold about 91,635 square feet for Rs.53 Crores value in nine residential projects. The average realization is about Rs.5700 per square feet. We have a total of nine residential projects under construction cumulating to 2.3 million square feet out of which the company has sold around 1.5 million square feet amounting to Rs. 581 Crores of which attributed to Vascon is around 320 Crores, out of the total Vascon attributable revenue we have already collected Rs.133 Crores. In hospitality the Holiday Inn commenced operation in April 2001. This is a four-star category hotel with 187 rooms located at strategic location near Hinjewadi, the IT hub of Pune. Vascon holds 27.5% equity stake in the property. This is the fourth operational hotel property in our portfolio. We would now like to open the floor for question and answers.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini:

Regarding the two projects from where we had to stall the work on HDIL project and the TN assembly project, what could be the work that we have already done and have we got all money from the client for the work that is already done or is there some debtor pending to be received there and if so



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what is the status there, how confident are we in getting that money and how soon can that be realized?

R. Vasudevan:

Let me answer one by one. The work which we were doing for HDIL we have executed 93 crore and 70 crore is the backlog. The Tamil Nadu assembly the total order was 210 Crores and the net order was actually 202.8, we have executed 67.9 Crores and 135 Crores is balance to be executed. As you know typically in EPC contract it is progressive payment being made as per the running bills which we raise, on both the accounts on Tamil Nadu assembly work I think we have a net outstanding of about 9 Crores, last bill which we have raised, on this bill we have been given assurance that for the amount of work which we have done the bill will be cleared, this is the assurance given but not yet materialized. On the balance state of work there is flux in terms of any assurance or any talks or anything because the political reason behind that particular job. We are not at present sure when it will take off, so it will be under suspension that particular work. HDIL work which we have done we have an approved bill of about 25 Crores and this work we have been assured that will start in a month's time, here again we stopped the work and the order value actually increased, so that is why our payment really became bigger in terms of outstanding because we follow that percentage of completion so they added up one more floor which is actually beneficial to us and that is how the amount became little higher outstanding. Otherwise usually what we do is in any of these EPC contracts and our exposure becomes beyond a point on each project we put a limit based on the client based on the status of the project we reduce work. It hits us badly in terms of overhead but it is better than putting our money to fund the project. So that is the decision, which we have taken and that is how the whole work has stopped in HDIL in Bombay.

Manju Bhashini:

Out of this 93 Crores of work that have already being executed for HDIL only 25 Crores is pending to be received and the balance has been received



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already, so in the case Chennai project except for the 9 Crore pending balance has been received. The Chennai project may not continue, you are not sure of that?

R. Vasudevan: There are only talks going on but the indication are that it may be converted to some other thing which they have appointed some people to find out what other purpose it can be used for.

Manju Bhashini: And the HDIL project got stalled because of?

R. Vasudevan: The cash flow problem from HDIL directly. It was a speculative building from their side. It was not as if it was built to suit buildings.

Manju Bhashini: Which location is this building sir?

R. Vasudevan: In Kurla.

Manju Bhashini: Okay and this was a deliberate move by Vascon or?

R. Vasudevan: As I said anywhere where we work outstanding becomes more we take steps, first we slow down and then if that also does not help then we stop the work. Not even one rupee of work going on at that site.

Manju Bhashini: Any other project that we are currently working on in the EPC side which is facing such concern anywhere else that you are facing such cash flow?

R. Vasudevan: Luckily for us no other major project, but these two are really fast moving projects for us at this point of time, they have really taken speed because once we have finished the foundation the basement it is the time we pick and so they had picked up full steam and unfortunately felt this.

Manju Bhashini: Next quarter for the rest of the year which are the EPC project likely to contribute and can we reach the 250 Crores run rate in the EPC in the following quarter?



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R. Vasudevan: See in the next quarter as I was explaining to you we had to immediately refocus and get other jobs and start off although we had lost couple of months in the bargain we are going in full steam in the Shantigram residential project from Adani which we bagged and in the last two months we have done good amount of work there. We have also fully put in active on the NBCC hospital work in Lower Parel which was in the slow start off pace in the last quarter, we also bagged the Parthian residential project in Andheri and part of the staff has been shifted there in that project in Bombay.

Manju Bhashini: What would be the size work that we do for these projects in terms of million square feet?

R. Vasudevan: Adani is about Rs.200 Crores plus and the NBCC hospital job is about Rs.133 Crores and the Parthian project is also Rs.60 Crores.

Manju Bhashini: Who is the builder there the residential project in Andheri West?

R. Vasudevan: The developer is Ecstasy Realty, he has done quite a few number of projects in Bombay and the other one, which we are really banking on and which we are pushing is the logistic park, which we picked up in a big way in Bhiwandi. It is a high demand area and substantial commitments in terms of sales have already happened from the developer, so it is a big project. Although in this quarter the value from this may not be as high, but the next six months we expect full values coming from because this is in the beginning stage at this point of time this is the designed build also so we are freezing all the designs so our schedule is that we take off in full blast may be end of this quarter and actually we can see steam happening in the third and fourth quarters actually, this is the one which will offset our other two setbacks.



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Manju Bhashini: When we say it is a logistics park, which means the companies would be invited to set up base there and that it is the session or what would be...

R. Vasudevan: Bhiwandi typically is a place where warehouses and godowns are plenty, this is a private development taking place on about 350 acres of land where the infrastructure is already happening, part of the work was already commenced by the developer departmentally by himself and what we are doing is we are doing the industrial shares from 5000 square feet ground floor structure to 10000 square feet ground floor structure targeting the small industrial looms, which have all been dislocated there, also then we are going into the sheds, which are going to be logistic parks in terms of storages, warehouses and godowns which are as big as 50,000 square feet to 100,000 square feet where we are working out an pre-engineered buildings, which will be erected on plinth and the internals can be done as a build to suit facility to anyone who is coming in, the developer has taken all the necessary subsidies and permissions, which is available in these locations and he has had good amount of commitments sales booking which he has done on this so the pressure on work is going to be very high. Actually only because of that one of the main reason that he had also wanted to join otherwise he was doing it in a small scale itself before in these locations.

Manju Bhashini: By when is this Rs.1100 Crores expected to be completed what is the time frame?

R. Vasudevan: Totally it is a five-year time frame.

Manju Bhashini: The margin in this project is likely to be around 12%?

R. Vasudevan: Margin will be low on this project because it is a very low budgeted type of construction, which we need to do. We will have net margin of about 9% to 10%.



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Manju Bhashini: Otherwise on the residential side, the real estate part we have done really well this quarter on the real estate part?

R. Vasudevan: One point I just wanted to reiterate in this Renaissance Project is this is an assured project because the whole work is being done on a open book methodology along with the developer, so this is the agreement, which we have worked out with them so there is no downside risk on this project in terms of escalation or anything.

Manju Bhashini: You mean to say the project, the construction cost...

R. Vasudevan: It comes out like a cost-plus but not structured like a cost-plus because we want to build in efficiency in the system.

Manju Bhashini: And we are the only contractor there?

R. Vasudevan: Yes, we are the only contractor there.

Manju Bhashini: On the real estate part for the full year what is our target in terms of sales right now in this quarter I think we have achieved close to 9 lakh square feet?

R. Vasudevan: Correct.

Manju Bhashini: For the full year or in the next two or three years what is our game plan and how are we positioned there, are we seeing enough traction happening in the locations where we are present in from last six months to one year what is the sense there?

R. Vasudevan: We have as I said nine residential active projects cumulating to about 2.3 million square feet of construction, out of this 2.3 million square feet of construction 1.5 million square feet is already sold, so I would say 65%



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plus off sale has happened across and the balance would be mostly because of the phase being slightly postponed that is the balance booking.

Manju Bhashini: Out of these 1.5 million square feet which is already sold what is the value pertaining to that and how much of that value has already been recognized as revenues in the P&L?

R. Vasudevan: Rs.581 Crores is amounting for this value; out of this Vascon's attributable would be about Rs.320 Crores. The amount which we have recognized already is Rs.126 Crores.

Manju Bhashini: At what stage of construction these are in I mean how long will it take to these projects to hit the threshold level and to be fully realized?

R. Vasudevan: Different projects are at different stages but primarily I would say they are in the stage of about 35% to 40% completion on an average if I put it weighted average wise approximately.

Manju Bhashini: For FY'12 what is the kind of real estate revenues that we can expect from the company in the P&L?

R. Vasudevan: Rs.150 Crores.

Manju Bhashini: Have we toned down here from the last time we spoke this number seems to be too low or is it that the progress is not as per our expectations or has anything changed here from the past four, five months?

R. Vasudevan: I do not think anything has change in the last three months.

Manju Bhashini: You said Rs.150 Crores of revenues are to be realized in FY'12, right?

R. Vasudevan: Yes, real estate revenue.

Manju Bhashini: Where is this new launch, which location?



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R. Vasudevan: These are smaller projects standalone projects like which we have launched in very, very hot moving locations in Hinjewadi, in Hadapsar and like in Xotech which we have launched out of 55 flats in the first building, which we launched we have sold already 36 flats and we have not yet commenced construction, we are just about starting construction and the other project which we are doing Ela comprises of again two building, which are about 120 in terms of numbers, first building we have sold about 50% and we have yet to commence construction there also.

Manju Bhashini: Internally new launches how much can we expect that to be apart from the balance 0.8 to 0.9 millions square feet that is yet to be sold how much more can we expect in next one or two years?

R. Vasudevan: In two years or this year?

Manju Bhashini: For FY'12 for the new few quarters?

R. Vasudevan: Apart from these two projects we have one project in Chennai, which is the Oragadam project which we should be launching by the end of the year then we have a project in Neelambur in Coimbatore, which also should be launched around the end of Q3 and we are hoping to launch a project again in the last quarter in Hyderabad, which will be about 0.6 million square feet of residential. In the last quarter we are also aiming at launching a first phase of the Madurai Project. In the coming quarter we are launching one big project in Talegaon called Nature's spring the development is about 60 acres of development, but the first phase will comprise of about 0.24 million square feet, which will be launching next month time.

Manju Bhashini: Chennai Oragadam in million square feet?

R. Vasudevan: 1.57 million square feet in the first phase.

Manju Bhashini: Approvals everything?



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R. Vasudevan: We have not got the approval that is why I said we will be launching in the last quarter expecting all the approvals to be through by October, November but I kept two months more.

Manju Bhashini: And the Neelambur Coimbatore project how much would be the size?

R. Vasudevan: It is again a 27 acre project, but of which the first phase is only 0.8 million square feet, which we are taking.

Manju Bhashini: The Madurai one how much is that?

R. Vasudevan: Madurai one actually also in land wise it is again 29 acres of land, but we are launching again only 0.5 million square feet in the first phase.

Manju Bhashini: And the first two projects, which you explained earlier that one was the Ela project 120 units what would....

R. Vasudevan: These are about 0.1 million square feet type of developments close to 4 million square feet I think totally.

Manju Bhashini: These are some of the locations, which no other developer is present Madurai and Oragadam not too many are again there?

R. Vasudevan: Yes, Oragadam there are not many especially in the range which we are offering there are none at present actually, but there are couple of projects which are starting off there, I think they will start of just before us or along with us, but we are pretty confident of our product and the way we are positioning ourselves. The other project are existing but they are a different type of a project targeted at a different set of buyers, so we are in fact adjacent to them so that is where the main competition would lie for us.

Manju Bhashini: We would be launching the 2.5-3 kind of price band or what is the expectation there?



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- R. Vasudevan:** We are aiming to start of around that price.
- Moderator:** The next question is from the line of Nitin Idnani from Enam Securities. Please go ahead.
- Nitin Idnani:** Firstly on the EPC just little continuation from Manju's question earlier with the drop we have seen in this quarter and even the Q2 like you are saying will take time to get mobilized and things to go on full stream would you care to revise the guidance of about 900 to 950 Crores of topline from EPC for FY'12?
- R. Vasudevan:** It is actually little early for me to do that. We are in fact picking up some smaller projects to speed-up or add up the lost time but I think by next quarter I will be able tell you.
- Nitin Idnani:** On the real estate front I actually had a specific question with regards to couple of projects. One being Weikfield and the other being the Holiday Inn the commercial portion of it. Wanted to know if any revenues from these projects are yet to be recognized and can we expect any of that in this current year?
- R. Vasudevan:** In the current year Weikfield the sales of the last portion of final building is coming.
- Nitin Idnani:** What would that amount be Sir?
- R. Vasudevan:** Amount would be about 25 Crores.
- Nitin Idnani:** This is being considered in the 150 Crores number that you have said for the topline from real estate. Can we know the gross debt and cash position as on June 30, 2011?
- R. Vasudevan:** 281 Crores.



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- Nitin Idnani:** 281 Crores is the gross debt and the cash balance?
- R. Vasudevan:** 63 Crores.
- Nitin Idnani:** Average rate of interest on this debt?
- R. Vasudevan:** 13.31%.
- Nitin Idnani:** It is about 37 Crores but if I see our interest expense in this quarter alone has been some Rs.12 Crores. Just wanted to know is there any thing in the interest that we capitalized or all of it is getting expensed.
- D. Santhanam:** The 281 Crores is the end balance.
- Nitin Idnani:** So this 11.9 Crores of interest expense if you can tie that up with the debt amount as on what debt is this interest being accounted and is there any other portion, which gets capitalized besides this.
- R. Vasudevan:** We have not capitalized.
- Nitin Idnani:** So this 11.9 for quarter would basically mean it is on a debt of much higher amount then 281 Crores at the 13.31% rate of interest that we enjoy. That is why I am not able to tie up your gross state of 281 Crores at a 13.31% margin and then the interest cost that I am seeing in this quarter.
- Company Speaker:** There is debt of 50 Crores that has been taken in the company books which has been pushed to SPV holding the asset in the last quarter. There was an interest on that debt in the EBITDA in the first quarter, simultaneously interest which has been received also which is part of other income.
- Moderator:** Thank you. The next question is from the line of Vineet Chandak from IDFC. Please go ahead.



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Vineet Chandak: I just wanted to check on the HDIL project the EPC since Q4 if I compare with Q4 FY'11 and this quarter presentation the contract value as well as order backlog has remained the same, so effectively during the whole quarter no construction has happened in first project. So but what has been the reason I mean what HDIL has been saying for not making these payments.

R. Vasudevan: No cash flow for them.

Vineet Chandak: What do you see will this project also get canceled or you see this starting again say a couple of quarters forward?

R. Vasudevan: I think the way they have told us is that they have in fact strictly told that there is no need of completely demobilizing the site. They are making arrangements of funds, the expectations are there from various other sources, which they have got stuck also and that is why we are not completely demobilizing in terms of machinery although in terms of labor and others we have demobilized.

Vineet Chandak: Secondly on your real estate project just want to understand how much has your cost of construction gone up in last 2 to 3 quarters compared a year back or so because by your mid income projects that will significantly hit the EBITDA margins right

R. Vasudevan: Essentially on the material front there has not been much impact. There has been good amount of impact on the labor and I would say so far there would be a net impact of about 4% or so.

Vineet Chandak: You are saying because cement and steel prices have also gone up.

R. Vasudevan: We are now using cement and steel over average period they go up and go up and go down.



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- Vineet Chandak:** So what would be the average percentage of cost for the mid income project for you.
- R. Vasudevan:** Difficult to answer that question I can do a project based on the amount at which one can want to do a project.
- Vineet Chandak:** If I take a project like Vista what would be the cost of construction for that project. Just to understand?
- R. Vasudevan:** Above 1200.
- Vineet Chandak:** Above 1200 so is the construction cost.
- R. Vasudevan:** Yes, rates and taxes would be extra.
- Moderator:** Thank you. We have a followup question from the line of Nitin Idnani from Enam Securities. Please go ahead.
- Nitin Idnani:** Just on the Oragadam project. Wanted to know if there will be an initial cash burn on this project before the revenues start flowing in or the collection start what is the quantum of investment that one would need to do before even being able to launch this project?
- R. Vasudevan:** We have not clubbed in land component in this because it is a joint venture.
- Nitin Idnani:** What is the investment again?
- R. Vasudevan:** 15 Crores.
- Nitin Idnani:** Would you be able to give guidance in terms of what is the debt going to be by the end of the year? Will it go up?
- R. Vasudevan:** About 350 Crores.



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- Nitin Idnani:** We should end the year with 350 Crores. This is the 281 going to 350 so about 70 Crores of incremental debt is what we think will draw down.
- Moderator:** As there are no further questions I would now like to hand the floor back to Mr. Dipesh Sohani. Thank you and over to you Sir.
- Dipesh Sohani:** Thank you Mr. Vasudevan, Mr. Murthy, Mr. Santhanam and all the participants for spending your valuable time for this conference call. Thank you.
- R. Vasudevan:** Thank you very much from our side.
- Moderator:** Thank you Sir, thank you members of the management. On behalf of MF Global Sify Securities India Private that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.