

## Transcript

### Conference Call of Vascon Engineers Limited

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#### *Presentation Session*

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**Moderator:** Good afternoon ladies and gentlemen. I am Ruchi, moderator for this conference. Welcome to the conference call of Vascon Engineers. We have with us today the management of Vascon Engineers. 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 floor to Mr. Shirish Pardeshi. You may go ahead sir.

**Shirish Pardeshi:** Thanks Ruchi and on behalf of Anand Rathi Research I welcome you all for 2Q FY12 results for Vascon Engineers. I am happy to announce that we have Mr. Santhanam, CFO of Vascon Engineering joined by Mr. Krishnamurthi, Chief Corporate Affairs Officer and we also have on behalf of Anand Rathi, joined by Mr. Manish Valecha. Mr. Santhanam can I take this opportunity to hand over the call to you and you can give the opening remarks. Thank you and over to you sir.

**Santhanam:** First of all good afternoon to all of you. Mr. Vasudevan could not join us due to some unavoidable reasons. So I have Mr. Krishnamurthi with me. He will take over now.

**Krishnamurthi:** Good afternoon. Dear friends, I welcome you all once again for the discussion on the second quarter results. The company has achieved a turnover of Rs.182.2 crores generating an EBITDA of Rs.22.3 crores and profit after tax of Rs.4.2 crores during the second quarter of the current financial year. The EPC contributed 106 crores to the top line whereas 38 crores is attributable to the real estate segment while GMP contributed Rs.36 crores to the overall revenue. The impact of stoppages in two of our fast track projects continued in the second quarter, preventing the company from fully absorbing the salary and overheads resulting in a slightly lower EBITDA than the corresponding quarter last year. The interest expenses were higher in Q2 mainly due to increase in overall debt position of the company and also in the increase in the average rate of interest around 300 basis points. Currently our average cost of debt is 14.9%. With the contribution of Q2, the half-year figure revenue for the current year is Rs.363 crores with an EBITDA of Rs.39 crores and a PAT of Rs.6.5 crores. Moving on to the details of our EPC business, EPC business has seen continuous additions of bigger orders taking our third party order backlog to above Rs.2,702 crores. Current half year recorded an order inflow of Rs.1522 crores the highest order addition in the history of Vascon. As of September 2011, cumulative order book is Rs.5,215 crores with an order backlog of about Rs.3,703 crores out of which 2,702 crores is third party EPC order. However, the challenges faced in the previous quarter in respect of order execution has settled to certain extent. We are hopeful of construction work expecting to come in

shortly on our two EPC projects that is Tamil Nadu Assembly building and the HDIL. The situation is likely to improve in the near future. We have shifted major resources from the discontinued project to the other construction site such as Shanthigram, residential project in Ahmedabad and NBCC hospital in Lower Parel Mumbai, which will also add additional revenue during the coming months to achieve the average execution and it will slightly make over the loss due to these two projects which were solved. Superior construction, continuous orders bagged and execution capability of 10 million square foot per year within time frame reaffirms our commitment towards our EPC business. Now moving on to the real estate business, the company in the half year ending 30<sup>th</sup> September launched Exetel residential project with developable area of around 0.12 million square foot. With this launch total area under construction in residential segment is around 2.3 million square feet. During the current half year, we have sold total 1,48,860 square feet. We have a total of 10 residential projects under construction, cumulating to 2.3 million square feet. The cumulative area sold till date is 1.5 million square feet amounting to a sale value of Rs.626 crores of which attributable to Vascon is around 347 crores. Out of the total sales value, we have already collected Rs.240 crores. In the next few months, the company has planned launches at Talegoan Pune and Oragadam Chennai in the price range of 3000 to 5000 per square foot, targeting mid-price market. Our other businesses in GMP is progressing well and making in-roads into the new territories and new locations abroad also. So we would like to open the floor for question and answer. Thank you all.

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*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 \* and 1 again.

I request the participants to press \* and 1 for your question.

The first question comes from, Mr. Krudent Chheda from Value Quest Research. You may go ahead sir.

**Krudent Chheda:** I would like to have a general update on the opportunities in the civil construction side and our payments from other parties also being delayed on the working capital situation...if you can give some more data?

**Krishnamurthi:** Yeah. Opportunity on EPC is very good so we are looking forward to add more segment into the EPC contract. So that is how we have done in the first quarter. The new acquisition of the Logistic Park from Renaissance thing which is about 1,100 crores contract. We are already there in segments like institutional building and educational building. We are doing a lot of work for Syngenta Institute, Goa Institute of Management, Symbiosis Colleges, so all that adds to our spread on the EPC. And regarding...

**Krudent Chheda:** How do you see your margin in the newer contracts and working capital situation for existing contracts?

**Krishnamurthi:** There has been some delays in the payment so we have taken action on that. Already as we have explained HDIL we have stopped. So other than that, fortunately other projects are moving on well and payments are coming through.

**Krudent Chheda:** And margins as for the newer projects sir?

**Krishnamurthi:** In HDIL also we have got additional payment during the quarter about 3 crores and we are likely to start the project.

**Krudent Chheda:** Sir, any update on the pharma business that we do...pharma EPC business?

**Krishnamurthi:** Yeah we are there and we are getting some orders also in the pharma business. As you see we have done a lot of work in Baddi where the tax benefits are there. We are expecting a few more orders to come maybe in the next few quarters.

**Krudent Chheda:** Okay. I will comeback with questions if I have.

**Moderator:** Next question comes from Mr. Nitin Ednani from Enam Securities. You may go ahead please.

**Nitin Ednani:** Good afternoon sir. I had a couple of questions actually. I was looking at your margins on the EPC side. Your gross margins are about 18% whereas the EBIT is only 5%. I just wanted your help in tallying this. How does the margin actually flow from gross to EBITDA to EBIT...if you can help me with the actual figures of other costs and depreciation on the EPC side?

**Krishnamurthi:** EPC you know we have created the ability of executing 10 million square foot in a year. So due to slow down in a couple of fast track projects, the actual execution is falling short on that. So the overheads recovery, employee costs and other overheads...it is not fully happening. So our EBITDA...while at gross margin levels we are there...we are almost there for long-time...At the EBITDA level we are falling a bit. As far as depreciation...as the market has changed...last few months, the rate of interest has also gone up and moreover our borrowings vis-à-vis last year when we did as opposed to our borrowing compared to last year has also gone up, so there was increase in that.

**Nitin Ednani:** Yeah but that won't impact EBIT. I was talking before EBIT. So basically employee cost, overheads and depreciation is almost about 14% of the total. Is that correct?

**Krishnamurthi:** It should be around 12%, 13%, but presently it is more than that. Excluding finance cost it comes to about 16%.

**Nitin Ednani:** Excluding finance cost it comes to about 16% of top line or...?

**Krishnamurthi:** Yes.

**Nitin Ednani:** Because you have 18% gross and you have a 5% EBIT. The difference being 13% which should ideally be explained by these headings right, employee overhead and depreciation? So how does it come to 16% then? If you can help me with the absolute figures...I don't know if you can break up employee and overhead into EPC and...?

**Santhanam:** Are you asking for the quarter or half year?

**Nitin Ednani:** I am asking for this quarter.

**Krishnamurthi:** Only EPC we have not done it. We are planning to do it in the next few quarters. What we have done is, we have done the segments in the revenue side and at gross profit level. At the moment we have not bifurcated the employee costs and overheads. We are working on that. In the next few quarters we should be able to give it.

**Nitin Ednani:** Understood. Are there any payments outstanding from HDIL still and Tamil Nadu Assembly project?

**Santhanam:** In Tamil Nadu, about 11 crores is outstanding and from HDIL about 24 crores.

**Nitin Ednani:** Okay. This is the same as last quarter so I believe there have been no collections at all?

**Santhanam:** (Inaudible) 27 so 3 crores have come there since last quarter.

**Nitin Ednani:** From HDIL?

**Santhanam:** Yes. 3 crores they have given. This is inclusive of my WIP as well as unapproved built asset.

**Nitin Ednani:** There is quick clarification on slide 11 of the presentation. If you see your holdings in the Holiday Inn, in the second line it is written as 28.7 but the second last line it is written as 27.5. I just wanted to know which was the right figure.

**Krishnamurthi:** 28.7% is the right figure. Our stake has slightly gone up...27.5% (not sure) have not contributed so our stake has gone up.

**Nitin Ednani:** Okay so there was no pay out for this?

**Krishnamurthi:** No pay out. In the sense there will be some outgo. When the issue happened, it is a small amount and that has already been contributed.

**Nitin Ednani:** Okay so you will increase your stake from 27.5 to 28.7 in this quarter?

**Krishnamurthi:** Correct.

**Nitin Ednani:** Okay and there was no...when you say there is a cash payout, what is it towards?

**Krishnamurthi:** Cash payout is increase in the holding na? 27.5 to 28.7...

**Nitin Ednani:** What was that amount?

**Krishnamurthi:** Additional capital of about 1-1/2 to 2 crores.

**Nitin Ednani:** Okay. Can we get a sort of an envelope breakup of whatever was the cash spent in the second quarter?

**Krishnamurthi:** No only in Holiday Inn we have spent.

**Nitin Ednani:** No, as in some you must have spent on construction...some on overhead etc. I just want to know what is the total cash outgo in this quarter. From a cash flow perspective how much money have we spent and on what?

**Krishnamurthi:** Okay...cash flow statement. On the operating activities we have expenses of 42 crores and adjustment for the current assets that is inventories, increase in inventories, increase in sundry debtors, loans and advances...so that is about 31 crores.

**Nitin Ednani:** Okay that is working capital?

**Krishnamurthi:** Yeah working capital.

**Nitin Ednani:** Increase in working capital.

**Krishnamurthi:** Yeah. Tax increment is another 2 crores. So 34 crores outgo was there and in the financing activities there is not much. It is about 33 crores we have got by way of additional loans. Some repayment has also happened. So totally there is net cash flow of...

**Nitin Ednani:** Okay. What was the total interest expense during the quarter as in the amount we paid? Do we capitalize any of the interest?

**Krishnamurthi:** Yeah. Small portion we capitalized about 1-1/2 crores has been capitalized.

**Nitin Ednani:** Okay so the rest CAPEX spent?

**Krishnamurthi:** The finance part also is about 11.92 crores. There is some income also.

**Nitin Ednani:** This is all the Holiday Inn right?

**Krishnamurthi:** It includes the Holiday Inn. Holiday Inn 2.10 crores we have recovered from them.

**Nitin Ednani:** This is similar like last quarter also where you had 2.1 crores of interest expense on Holiday Inn where you capitalized. But the income from Holiday Inn comes in your other income. Is that right?

**Santhanam:** That is right. But this is not continuing now. In this quarter that interest is not there because that is squared off in the month of...

**Nitin Ednani:** So this quarter 11.9 crores is entirely is excluding of any Holiday Inn income?

**Krishnamurthi:** Correct.

**Santhanam:** In this quarter, yes.

**Nitin Ednani:** Okay understood got it. Just on two projects on the real estate side, if you can give me an update, one on the Thane land if there is any update or any movement per se in terms of knowing the visibility of launching that land parcel. And the second one was on wind energy. Just wanted to know what is the cost of construction that will be incurred by March 2012 on that project as a percentage of total? As in what is the percentage of cost incurred and therefore the revenue booking that we can expect by this year end.

**Krishnamurthi:** As far as Thane is concerned, the master plan we are working out... (Inaudible) and then we will have to submit for approval.

**Nitin Ednani:** So no real movement there?

**Krishnamurthi:** No...cash flow level it has not yet reached.

**Nitin Ednani:** Sure and Windermere?

**Krishnamurthi:** Windermere...we have sold more flats after the quarter ended.

**Nitin Ednani:** Okay. I wanted to know basically...see when you're your slide 8, one quick clarification on slide 8 now that I have it open is that sales value column which is 6,257,000 million totally, is this the total for the project or is this Vascon's share in that project wherever it is applicable?

**Krishnamurthi:** This is the total for the project and Vascon's share is...347 crores.

**Nitin Ednani:** Okay. I think what will help is...if you can include that column also next quarter onwards it would be very helpful.

**Krishnamurthi:** Okay done.

**Nitin Ednani:** The collection also is similarly is for the project and not for Vascon share I would assume?

**Krishnamurthi:** Correct.

**Nitin Ednani:** And what about revenue recognized again is it for the project per se or is that only Vascon share of revenue recognition.

**Santhanam:** No, no it is revenue sharing. So, whenever we grew revenue, we grow revenue as per our collections only.

**Nitin Ednani:** So the revenue recognizes what comes entirely in Vascon's book only.

**Santhanam:** Yes...wherever revenue recognition is followed, we (inaudible) only our share. Rest goes as liability and gets knocked off whenever...

**Nitin Ednani:** So there is no project where you will recognize 100% revenues and then in the minority interest you will remove certain amount?

**Santhanam:** No. All are revenues.

**Nitin Ednani:** Okay understood. So then the revenue recognized column per se is not comparable to the sales value per se because the sales value is for the total project whereas revenue recognizes only for your share.

**Krishnamurthi:** Correct.

**Nitin Ednani:** Okay. So, in that case what will definitely help is knowing what is Vascon's share in each of these projects as well as the sales value.

**Santhanam:** One more issue is we recognize revenue only after the flat is registered.

**Nitin Ednani:** Got it. A most specific question with regards to Windermere, you have total sales in this project of up to about 114 crores even if your stake in that is 45%, that's about a good 50 crores of revenue whereas you have not booked anything much. I just wanted to know what is the percentage of cost that we have already incurred because you see you've recognized only 8 million or 80 lakhs rupees out of a total of 50 crores which means that there is hardly any cost been incurred per se so far.

**Santhanam:** Yeah we have done one sample flat. We have not recognized much sales mainly because no registration is there except one flat just registered.

**Nitin Ednani:** Okay. So how many apartments totally have we sold here?

**Santhanam:** 16 apartments we have booked there.

**Nitin Ednani:** So if one apartment booking...you would have registered more than one I think because you have recognized some revenue in one duplex as well as one apartment. So obviously you would have registered at least one each.

**Krishnamurthi:** Cumulatively registered three. Some are in the earlier quarter also.

**Nitin Ednani:** So three registrations give you 15 million odd of revenue as per the cost that you have incurred so far. So by March I am assuming there will be a significant chunk of costs being incurred at least a good 30%, 35%. Would that be a fair estimate at least 30%, 35% of cost to be incurred at Windermere by March?

**Santhanam:** 30 of total cost not possible...just about...

**Nitin Ednani:** So what is the total cost of the project?

**Santhanam:** Total cost of the project is...

**Nitin Ednani:** 200 crores?

**Santhanam:** Yeah.

**Nitin Ednani:** And how much amount would we have spent till date?

**Santhanam:** 30 crores minimum.

**Nitin Ednani:** 30 crores has been spent so that's about 15%.

**Santhanam:** This is again inclusive of the sample flat we have done there also.

**Nitin Ednani:** Sure, but that would also be captured in when you calculate your revenue sharing right?

**Santhanam:** At the end of the project this is cost for me.

**Nitin Ednani:** Correct, exactly. So 30 crores out of 200 that is 15% of cost incurred. I would assume that another 20% would be reached even if you won't be able to complete plinth by March. So does 30% still look a little aggressive to catch in the sense of completion?

**Santhanam:** No I would keep it 20 only. It is possible we might reach 30 also.

**Nitin Ednani:** So another 5% of execution should happen? Okay that's it from me thank you so much.

**Moderator:** Thank you sir. Dear participants, please press \* and 1 for your questions.

Next question comes from Mr. Shirish Pardeshi. You may go ahead sir.

**Shirish Pardeshi:** Hi good evening sir. I just wanted to understand how is the overall order inflow scenario in the real estate segment sir? Overall order inflow in terms of work that is coming from the real estate segment?

**Krishnamurthi:** From our own real estate segment?

- Shirish Pardeshi:** Both yours as well as the third party contract.
- Krishnamurthi:** Third party contract we have acquired 65 crores order during the quarter. Our own contract, once we launch the project, additional order will come.
- Shirish Pardeshi:** Okay.
- Krishnamurthi:** Talegoan and Oragadam may come for the current year. Our total order book is 5215 crores.
- Shirish Pardeshi:** Okay sir. And in terms of margin I wanted to understand how are the margins for your project as well as third party contracts? Are they same or...?
- Krishnamurthi:** In EPC, it is more or less same.
- Shirish Pardeshi:** So does it happen through open bidding or we directly bag the contract by our own contracts?
- Krishnamurthi:** No we have partners in each one of our contracts. So it is like a negotiated price. So they have to accept. If it is revenue sharing, then internally also we have a benchmark so the operating people were given a budget for that amount. So partly we have the client also.
- Shirish Pardeshi:** Okay sir. I wanted to understand if you are looking at any more expansions you are looking at the hotel segment, beyond these 5 big ones?
- Krishnamurthi:** No, at present we are more focused on real estate which is doing well for us.
- Shirish Pardeshi:** Okay and sir, last time you mentioned about entering into other segments beyond building and real estate. Any plans on that?
- Krishnamurthi:** Last quarter we had bagged the Renaissance contract which is a logistic park. This is a different segment of construction so we are now focusing on hospital building and we are expecting some orders there.
- Shirish Pardeshi:** But the main segment will be building segment only, going forward also?
- Krishnamurthi:** Yeah.
- Shirish Pardeshi:** Okay. And sir any top line guidance? Would you like to share?
- Krishnamurthi:** Top line we are gearing up. Actually last quarter much has not happened in those two projects but the other projects had picked up so we are working on the next project also. So if these two projects start, then we may be able to touch our previous year's turnover.

**Shirish Pardeshi:** Sorry how much?

**Krishnamurthi:** If these two projects also hopefully if we start during the quarter, we may be reaching our previous year's turnover.

**Shirish Pardeshi:** And market we are likely to maintain at the current level?

**Krishnamurthi:** Yeah.

**Shirish Pardeshi:** And sir any particular reasons for margins being higher in this quarter versus the last quarter? Any particular segment or any particular order that has done well this time?

**Krishnamurthi:** No this quarter the development work turnover has increased. In development the margin is higher especially for Forest County which was owned by us. Our own land and so the margin is...gross margin is 50% over there.

**Shirish Pardeshi:** Okay sir, that's it from my side.

**Moderator:** Thank you sir. Dear participants please press \* and 1 for your questions. There are no further questions on the floor sir. Now I hand over the floor to Mr. Shirish Pardeshi for closing comments.

**Shirish Pardeshi:** Thanks Ruchi. On behalf of Anand Rathi Research, I thank Mr. Santhanam and Mr. Krishnamurthi for attending this call. I also thank all the participants for taking out your time attending this call. I would like to hand over to Mr. Santhanam for closing remarks. Mr. Santhanam...

**Santhanam:** Thank you all the participants.

**Shirish Pardeshi:** 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.

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**Note:**

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