

Presentation Session



“Vascon Engineers Limited Q3FY12 Results Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the Q3 FY12 conference call of Vascon Engineers hosted by Almondz Global Securities Limited. As a reminder for the duration of this all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Harjit Singh Sethi. Thank you and over to you sir.

Harjit Singh Sethi

Thank you Moshim good afternoon everyone on behalf of Almondz Global Securities I welcome Mr. R Vasudevan – Managing Director and other members of management team of Vascon Engineers. I would like to hand over the proceedings to Mr. Vasudevan with a request to take us through quarter three FY12 performance as well as provide insight into the business. Sir over to you.

R. Vasudevan

Thank you dear friends good afternoon I welcome you all for discussion on our third quarter results and my senior management team R. Krishnamurthy and Santhanam are also joined this conference call although from a different location. The financial highlights. Our revenue for the current nine months is rupees 547 crores as compared to 647 crores for the corresponding period last year. The EBITDA is at 75 crores 13.58% of the revenue and the net profit for the current period is at 9.9 crores about 2% of the revenue. EPC contributed rupees 96 crores to the top line whereas 27 crores is attributable to real estate segment while GFD contributed rupees 41 crores to the overall quarterly revenue. Moving onto the detail as of December 2011 the cumulative order book is 5,227 crores and the order backlog is about 3,659 crores a strong position our current EPC third party order backlog stands at rupees 2,667 crores the current nine months recorded an order inflow of 1521 crores. Our EPC business has been witnessing a slowdown since past two quarters however the company is in process of making all efforts to settle down challenges being faced in respect of order execution. We have faced slowdown in some of our projects resulting lower in the EPC revenue run rate which we are confident of recovering by the next financial year.

We are also hopeful of construction work expecting to come in shortly in the Tamil Nadu Assembly building work. Also due work at Renaissance Project being commenced in the current quarter. We expected to contribute certain revenue to total EPC revenue from next quarter onwards which will further contribute in improving the average EPC revenue run rate. Superior construction continues orders book back and execution capability of 10 million square feet construction per year we expect our EPC business to do well in the future. Now on real estate business during nine months we have done extremely well on the real estate front we have sold around .21 million square feet we have a total of 10 residential products under construction cumulating to 2.3 million square feet the cumulative area sold is about 1.6 million square feet amounting to a sale value of rupees 667 crores of which amount attributed to Vascon is around rupees 366 crores. Out of the total sale value we have already collected 276 crores of which attributed to Vascon is around 168 crores. The sale in current quarter is about

59,000 square feet amounting to sale value of about 42 crores. Further the unsold area on some of the real estate residential projects which are under construction and which are expected to further generate cash flow is approximately 210 crores. The total projected cash flow from our current real estate portfolio amounts to approximately 345 crores which was realized in actual value in the coming quarter. The company is also planning to launch the telecom township project of approximately 57 acres in Pune in the current quarter and all clearances to commence the work have been obtained. The total saleable area of the project is 2.5 million square feet the residential project will have 1, 2 and 3 bedroom the sizes ranging from 650 square feet to 630 square feet. The township will have of course all the amenities like swimming pool gymnasium, community hall, kids area tennis courts and other things the first phase of 2,4 million square feet is expected to be developed over a period of two and a half years.

Also the company is planning to launch Ela, a residential project of 96 flats in Hadapsar comprising of two, three bedroom apartments of 1100 and 1400 square feet in the coming quarter. In the next few months company has planned launches at Chennai, Coimbatore, and Nasik in the price range of Rs. 3,000 to 5,000 per square feet targeting the mid-price segment.

GMP business – this business which is into a clean room, partition as well as HVAC has been delivering a consistent growth and generating steady revenues and margin is expected to remain stable in going forward.

The company is now focusing on joint bidding turnkey contracts so as to achieve the synergies of acquisition hospitality business the emerging opportunities to diversify our strategic stakes in 5 hotel properties located across Goa, Pune, Coimbatore the total investment by Vascon in these projects is amounting to 90 crores we will update you on any material development on the subject as we go forward.

We would now like to open the floor for Q&A thank you.

Moderator: Thank you and we will now begin the Q&A session. The first question is from the line of Nitin Idnani from Enam Securities. Please go ahead.

Nitin Idnani: Good afternoon sir. Just had a couple of questions one is you know the EPC billing has been down this quarter and I can understand that is this is more like a timing issue before you mobilize assets and start on new sites but if you can just help me understand this quarter's EPC revenues came from which of our projects and in this fourth quarter which any other projects which you think will incrementally add to the EPC billing?

R. Vasudevan: Yeah, essentially the EPC billings which we had come from our third party contracts or projects some of the projects which are running in Bombay, some of the projects we are doing is industrial projects which we are doing in places like Kurkumbh, Patalganga and also projects like ESIC Hospital which is in Bombay again and some institutional work which we

are doing in Sholapur, Kolhapur and Poona location these are the main contributors of the EPC business which is coming from third party contracts.

Nitin Idnani: Okay and which were the ones?

R. Vasudevan: One minute coming to answer your second question going forward in the next quarter good amount of contribution as I mentioned in my speech is likely to happen from the Renaissance projects in Bhiwandi it is the Logistic Park the basic foundation work in terms of the staffing in terms of the material equipments we have already mobilized and the work is just picking up and we expect good amount of work EPC business coming from here another good volume likely to come in is from the work of Adani township project is Ahmadabad the third project which should happen but maybe it will take in the fag-end of this coming quarter would be good news in terms of recommencement of work of Tamil Nadu assembly work we are hopeful that this will start by this quarter but may not bring in good volumes because it may be the first month one month of activity here and these are the major contributors.

Nitin Idnani: Okay so the HDL project that we had stopped work on that would not recommence?

R. Vasudevan: HDL it is like it doesn't like reviving right away and the indication that I can't I don't want to anything yeah.

Nitin Idnani: Sure the second question was if I look at your slide 5 and see the gross profit margins across various verticals I was under the understanding that the GMP margins were quite similar to the EPC business but the gross profit margins show that GMP is almost double of EPC does this move to a similar margin at the EBITDA level or is GMP actually a much higher margin business than our EPC business?

R. Vasudevan: No actually. Krishnamurthy can I answer that?

R. Krishnamurthy: Hello, the GMP the margins the EBITDA margins comes to similar level whereas at the gross level some of the labor and things they are not taking into so gross margin is higher than our business.

Nitin Idnani: Okay so like employee cost of GMP does it get I mean reported in our EPC part of it and it doesn't come into theirs or is it just like overheads and?

R. Krishnamurthy: Its overheads the installation comes under the line of gross profit.

Nitin Idnani: Okay understood so on an EBITDA level they have the same sort of margin?

R. Vasudevan: Yeah similar type slightly higher but similar type of margin.

Nitin Idnani: Okay this Adani project the Shantigram project well there has been recent news that Adani group is looking to exit the real estate business per se does this have any impact on the contract

given to us for what I believe is a phase 1 only which is like a very small percentage of the total project that is to be I mean any sense on this I know its early days but how would this play out?

R. Vasudevan: I think I can give you some comfort we were also concerned when we read about that see actually the project stands it is it's a fairly big project it has been distributed between four major contractors out of which Vascon Nagarjuna Construction, CPCL and the local Khurana contractors are doing the work in four different sectors of the development and the infrastructure is being development by someone we after the news coming in from the paper from the management we got direct communication informing us clearly that if policy wise they are going to continue to do the in real estate business with Mr. Gautam Adani actively involved in this business they call of it more of a reorganization rather than completely exit I mean this is the explanation given to us by them but having said that we really don't know what are their intentions but since the fact that on the sector where we are working we definitely know that 80% of that structure is sold we hope that it will not have an impact whether it is taken over by anyone else or it is being continued by them.

Nitin Idnani: Correct projects would have to be delivered to customers in any case?

R. Vasudevan: Yeah, correct, correct and Adani's name are also very, very crucial there and I don't think they will do anything to you know, harm that.

Nitin Idnani: Got it understood.

R. Vasudevan: So that is the phase which we have but ultimately you know we really don't know if there is some temporary in case something someone else takes over likely to be. But is unlikely looks like very, very a remote possible.

Nitin Idnani: Right sir if I just look at the EPC and GMP revenues put together we are at about 437 crores of revenues in this nine months and I can understand that you know, even fourth quarter possibly could be higher than third quarter but I was wondering when is it that you see a hitting a run rate of something like 200 crores of billing per quarter again I mean that was our peak sort of billing that we have achieved in some of the previous quarters?

R. Vasudevan: I expect this to happen in the second quarter of 2013. Not earlier than that.

Nitin Idnani: Okay and sir last question from my side is on the real estate side currently the projects that are contributing to revenue is there like some projects which are going to cross the threshold in the next I mean in Q4 or in the first half of FY13 where we can see a significant jump even the real estate revenues?

R. Vasudevan: You see in real estate revenues two commercial projects which have seen closure in terms of term sheet closure I think we are utilizing the revenue as per the agreement for sale is registered two projects of good value of about 100 crores is likely to come in the last quarter

and apart from the residential projects of Forest County we are doing very well good amount of top line bottom line is coming from that as well and we are seeing some movements happening in our Windermere Projects also which the documents which are being registered are also happening in this last quarter so it will be trickling in from other projects like Tulip in Coimbatore and Vista from Nasik but the major contributors would be projects like Forest County and some of the commercial projects which we have closed and which we are like to execute the documents.

- Nitin Idnani:** Right these commercial projects like you mentioned of 100 crores these are near complete or?
- R. Vasudevan:** See we have completed and handed over also.
- Nitin Idnani:** Okay so this 100 crores could all of it could come in at one go if you sign those term sheets as or sign those agreements rather?
- R. Vasudevan:** Yeah, correct.
- Nitin Idnani:** So the run rate that we are on now that should continue plus we could see another 100 crores of revenue coming in the fourth quarter?
- R. Vasudevan:** Of course yeah.
- Nitin Idnani:** Okay if not the fourth quarter it would sort of overflow into the first quarter of next year?
- R. Vasudevan:** Yeah, that is 100% yeah, 100%.
- Nitin Idnani:** Understood and the debt has also gone up this quarter I think by about 20 crores do you see it going up further what would be the peak debt amount that?
- R. Vasudevan:** Yes we are roughly we have gone half through .6 debt equity ratio in periods where we require cash flows it is usually happening because of slow cash flows coming in from our contractual projects more than actually the real estate projects in fact this time around the company has performed very well on the real estate and there has been positive cash flows from both of the real estate projects and the EPC business has been slightly pulling down those cash flows which we are creating and unequal and unexpected strain on the cash flows but I think this is happening because of the overall cash flow scenario across.
- Moderator:** The next question is from the line of Sundar Subramanian from Almondz Global Securities. Please go ahead.
- Sundar Subramanian:** Good afternoon sir. What part of our order book would be fixed price contract?
- R. Vasudevan:** We don't have a fixed price contract by far in any of these contracts when I mean that is the basic price of some of the key materials like cement steel and today now a days we are

covering some other materials as well which are sensitive like sand on a base price and any variation on these beyond 5% margin is chargeable to a contract.

Sundar Subramanian: Okay and what about captive orders even captive orders we have the escalation clause?

R. Vasudevan: No, captive orders actually again here also cement and steel is at fixed price I mean at a variable price at a base price rest is at a fixed price.

Sundar Subramanian: Okay and how the EBITDA margins on the captive contracts compared with the third party EPC?

R. Vasudevan: Yes all is done at on arm's length basis so it will be almost the same. See actually what we are realizing in EPC business as long as the project is executed within the timeframe estimated, the cost overruns are very, very minimal but only when we find that the projects get delayed due to various reasons like if there is statutory problems, if there is liquidity problem or then only the project gets delayed. Additionally now a days we are facing strain because of the labor shortage also but now we have got used to projecting our timelines based on what is the present market condition in terms of labor supply. So we are careful about committing dates now-a-days but otherwise the main strain comes only when there is an overrun in time because it kills over rate and the machinery utilization.

Sundar Subramanian: Sir why was our effective tax rate high this quarter this quarter means this quarter and nine months?

R. Vasudevan: Yeah, one minute Krishnamurthy will be able to explain this better than me Krishnamurthy can you take on.

R. Krishnamurthy: Yeah, the tax rate in standalone financials are in line with the 33% while under consolidation the tax rate is higher due to consolidation of different companies so which some of the companies have not unfortunately the AS-22 does not allow us to adjustments for the tax so tax gets consolidated so intercompany revenues get eliminated so the tax rate looks higher on the consolidated level.

R. Krishnamurthy Revenue has not got recognized.

Sundar Subramanian: Okay and it's basically the tax on the intercompany where the revenue gets knocked off for the tax remains

R. Krishnamurthy: Correct.

Sundar Subramanian: Okay sir can I have the capital employed in EPC real estate hospitality, and **GMP** business?

R. Krishnamurthy: We have we will send it to you that data.

- Sundar Subramanian:** Sure sir and one last question from my end are we seeing any ground level changes like recently even government is showing some initiative are we seeing any ground level changes in terms of the execution speed or in terms of getting new orders?
- R. Vasudevan:** No we are not seeing anything drastic in that.
- Sundar Subramanian:** Okay by I mean when do you, is there any visibility no green shoe absolutely?
- R. Vasudevan:** See actually if you really analyze our order backlog position we are at a very healthy state but the problem is in terms of actual execution we get stuck because of delays in execution mainly because of the instructions from client either by way of their liquidity issues or by way of their statutory clearances or by way of their decisions which is coming in. That's where we are getting bogged down. Our order backlog is 3,600 crores and most of these orders are one and half year period we should be doing 1,500 crores easily but it doesn't it is not happening mainly because although we are overbooked mainly because all the works don't happen simultaneously.
- Sundar Subramanian:** Correct sir when do you expect things to change as it from maybe first quarter or second quarter FY13?
- R. Vasudevan:** We are also exposed to the real estate market because we have been contracting work for real estate companies. So the situation at the real estate front needs to improve which is and commercial demand which is contributing to major buildability is sluggish at this point of time the residential takes longer period and is also slower and whereas in the same year I can do four times the commercial square feet volume compared to residential because residential tends to be more high rise or more small developments and not easy to execute. So unless that situation improves in the commercial trend on the EPC front there is going to be pressure.
- Moderator:** Thank you. The next question is from the line of Gaurav Malik from Locus Investment. Please go ahead.
- Gaurav Malik:** Hi sir just wanted to get the consolidated cash and debt on the books?
- R. Krishnamurthy:** Consolidated debt is 389 crores, cash consolidated is 43 crores.
- Gaurav Malik:** 43 crores and on the standalone basis?
- R. Vasudevan:** We will provide it.
- Moderator:** Thank you the next question is from the line of Anubhav Sharma from Care Limited. Please go ahead.
- Anubhav Sharma:** Good afternoon sir. Sir regarding your hospitality business how is it doing going forward in that segment?

- R. Vasudevan:** See hospitality business for us has been more of a opportunistic type of development which we have done in locations where we felt an hospitality mix will add value to that development and the way we have structured is we established these products wait for its maturity and exit we have already exited from two hospitality projects in Goa and one in Chandigarh. The other projects which are at the maturing stage now the second project in Goa and the one in Coimbatore we are looking at suitors to take off these projects and maybe in the next six months or so we should be able to dispose off them. The other projects are at the fairly beginning level and too early to look at an exit.
- Anubhav Sharma:** Okay sir in terms of the real estate exposure if you see most of the projects are in and around Poona particularly where if going through the trend there is a more of less more of a supply of more of supply over there in the real estate so is there any pressure on the per square feet rate on the company's various real estate projects in residential and commercial?
- R. Vasudevan:** No I think the locations which we are doing the sale is very good the rates are yes rates had gone up in the last one and one and half years compared to what it was but there is sort of stabilized now and once we see some indicative corrections happening toward the interest rate we see steady stream picking up in these locations as well and even as on today all these projects we are like 75% sold and 25% remaining type of a situation so we won't see pressure from these projects.
- Anubhav Sharma:** Okay and this will last thing on that in your nine months space and operating income of 16 crores which in past was not had happened so particularly what it would be relating to in the standalone of nine months?
- R. Vasudevan:** Santhanam. Can you answer that question.
- D. Santhanam:** Yeah. Yeah. Standalone only ting 16 crore you are asking no.
- Anubhav Sharma:** Yes, yes in nine months period?
- D. Santhanam:** See the same reason the reasons are not very different it's the same there are two big contracts have been halted the TNLA and HCL so the other indirect expenses has stopped at the same level so that pulls down the overall margin.
- Anubhav Sharma:** Sir this is the operating income of 16.42?
- D. Santhanam:** Other income, other income it consists of interest. Yeah other income consists of income from Ajanta Enterprises projected. It consists of income of 10 crores and other income from other companies our SPVs and AOPs the balance about 5 crores.
- Anubhav Sharma:** Okay majorly 10 crores was from Ajanta Enterprises?
- D. Santhanam:** Yeah.

- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Securities please go ahead
- Nitin Gandhi:** Hello. Yeah, I would like to know some more information on debt management and interest burden going forward because there is almost consolidation basis doubled in first nine months so how are you mitigating and what are your policies?
- R. Krishnamurthy:** The cash flow is going to improve based on the couple of sales we are looking at and we are looking at the debt also to remain at this level for some more time because we are going to start new projects in real estate after which it will start declining.
- Nitin Gandhi:** So you will 320 crores average 11.63 is going to continue for how long when is your repayment falling?
- R. Krishnamurthy:** The repayments will be falling in early next year '12, '13.
- Nitin Gandhi:** How much they are?
- R. Krishnamurthy:** 60 crore for the whole year quarter wise I will give you.
- Nitin Gandhi:** Okay thanks but that average cost is 11.5 plus right this still remains at same level for next year?
- R. Krishnamurthy:** Average cost has increased to 15%.
- Nitin Gandhi:** Oh, it has further increased now so Q4 is going to have further hike is it?
- R. Krishnamurthy:** Yeah.
- R. Vasudevan:** Yeah, average cost he is asking Krishnamurthy.
- Nitin Gandhi:** I am asking average cost?
- R. Krishnamurthy:** Average cost is 15%.
- Nitin Gandhi:** First nine month average is 11.63?
- R. Krishnamurthy:** Now it is going up now. 14.9% as of September.
- Moderator:** Thank you. The next question is from the line of Manju Bhashani from Sundaram Mutual Fund. Please go ahead.
- Manju Bhashani:** Hello good afternoon sir. Yes one clarification that I need is I think the earliest one of the earlier questions you had answered another additional 100 crores is likely to be realized from

some commercial projects which are already completed and handed over which one would those be sir?

R. Vasudevan: This is from two SPVs one is The Phoenix which is an IT building which we have given it to Income Tax department on lease and we have sold that building as a leased building and one is an IT building which we had contracted to build for NV Realty. For the IT Park the term of the contract was that we got 50% at the commencement of the work and the balance 50% was due at the completion of the work. We have completed the work in within 12 months of completion of the work. And the completion was given on 30th March, 2011, and 30th March 2012 the payment becomes due and it conveyance becomes executable. These are the terms under which we have agreed to due.

Manju Bhashani: Sure sir, but I mean normally is that the case that date of completion and the date when the payment is due is it normally one year sir?

R. Vasudevan: No, in this case it was the structured deal which we had done it was lead to the average yield which was going to come from the leasable or a time limit of one year whichever is earlier. See we have already got 50% first and there was linkage we have to wait for one year.

Manju Bhashani: Okay in terms of size how big are these two projects in terms of area?

R. Vasudevan: One is about 1.25 lakhs square feet the second is of about 2.5 lakhs square feet.

Manju Bhashani: Okay so then the next quarter your EPC revenues can be around 200 crores by going by <>?

R. Vasudevan: Yeah, both of these gets recognized yes it will that will add up to that but I think in one of both of the projects our contribution our share in one project is 63% and another it is 50% so to the extent of our realization value it will count.

Manju Bhashani: No the value that is that can be realized in the P&L from these two projects would be only our share right. So around what 50 crores would be incremental over and above the quarterly run rate of 100 crores that we have got?

R. Vasudevan: Yes correct, likely yeah, approximately.

Moderator: Thank you. As there are no further questions I would now like to handover the floor to Mr. Harjit Singh Sethi for closing comments.

Harjit Singh Sethi: On behalf of Almondz Global Securities Limited I thank Mr. Vasudevan for providing us his valuable time and insights about the company. I would also like to thank all the participants for joining the call. Thank you very much.

Moderator: Thank you. On behalf of Almondz Global Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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