



“Vascon Engineers Limited Q4 FY'12
Conference Call”

May 23, 2012



**MODERATORS: MR. R. VASUDEVAN
MR. M KRISHNAMURTHI
MR. D. SANTHANAM**



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Moderator:

Ladies and gentlemen, good evening and welcome to the Q4 FY'12 earnings conference call of Vascon Engineers Limited. As a reminder for the duration of this conference all participants' 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 need assistance during the conference please signal an operator by pressing * followed by 0 on your touchtone phone. I would now like to hand the conference over to Mr. R. Vasudevan. Thank you and over to you Sir.

R. Vasudevan:

Dear friends. Good afternoon. I welcome you all once again for discussion on the company's annual results for FY'12. Along with me we have our senior management team of Mr. M. Krishnamurthi, Mr. Santhosh and Mr. D. Santhanam.

Coming to the financial highlights, our revenue for the current year is to Rs.712 Crores as compared to 1033 Crores for the corresponding last year. The EBITDA is at Rs.83 Crores, 11% of revenue. The net profit for the year is at about 15.5 Crores, 2% of the revenue. Out of this EPC contributed Rs.433 to the topline whereas 183 Crores is attributed to really state segment while GMP contributed Rs.160 Crores to the overall yearly revenue. The company operated in a challenging macroeconomic environment during the year FY'11-12. It's decelerating growth momentum across the sector during FY'12 lead to improvement of capital expenditure and pending investment decisions. Slower pace of execution as higher input and labour costs affected the operating profits of the various companies in the sector.

Moving on to the details of our business, EPC segment as of March 2012 the cumulative order book is Rs.5063 Crores and order backlog is about Rs.3424 Crores of which third party order backlog stands at Rs.2441 Crores. The last year recorded fresh third party inflow of 1521 Crores. The revenue growth in the EPC segment has been much lower during the year on account of deferment of some of the anticipated orders and delays in few contracts. Margins were also impacted on account of escalation of input and labor costs, which has put strain on the EPC business; however, we had announced extremely careful while selecting EPC contracts and making all efforts to settle down the challenges are being faced in the sector of the order execution. We are also focusing on our real estate business as most of our projects are taking shape and few other projects are getting ready for launch.

With superior construction quality and execution capabilities of about 10 million square feet of construction per year, we expect our EPC business to improve in the near future. Now on



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real estate business during the year we sold totally 0.26 million square feet. We have total of 12 residential projects under construction cumulating to 2.6 million square feet. The cumulative area sold is around 1.65 million square feet amounting to sale value Rs.700 Crores of which attributed to Vascon is around 383 Crores. Out of the total sale value we have already collected Rs.333 Crores of which attributed to Vascon is Rs.119 Crores. The total projected cash flow from our unsold ready inventory is about Rs.132 Crores, which we expect to realize in the current financial year.

During the last year we had launched phase I of Nature Springs a residential township project in Talegoan, near Pune having sellable area of about 1.24 million square feet. The response to the same has been impressive. The total sellable area for the company's project is 2.5 million square feet and the same will be launched in phases. We have also launched another residential project Ega at Pune in the month of April 2012, with total sellable area of 0.12 million square feet. The residential development will have 2 to 2.5 bedroom sizes ranging from 115 to 1595 square feet. The projects will have all the latest amenities and they expect it to be developed over a period of two years.

In the next few the company has planned launches at Chennai, Coimbatore, Nasik in a price range of Rs.3000 to Rs.5000 per square feet targeting mid price segment. These areas are the epicenters of progress and with economic activity better off in these locations, the company is all set to garner the demand based on its locations and its track record. The E&P business this sector has been delivering a consistent growth and generating steady revenue and a margin which is expected to remain stable going forward. This company has been successful in bidding giant turnkey contracts like ESIC Hospital, BPTP Residential Project, Sankara Eye Hospital, etc., achieving the energy of acquisition of this business. Other developments, arbitration closure for Samsara Hotel Private Limited dispute with respect to the sale of the other Samsara Hotel Private Limited leading to a claim by them of Rs.48.7 Crores under arbitration is now being resolved and settled among the parties of dispute by consent term agreed between the parties.

The consent terms are under process of being filed with the tribunal. The company has been legally advised taking view of the consent term begin executed between the parties to dispute, no dispute, no exit with respect to the Samsara Hotel Limited and accordingly provision for contingency of Rs.20 Crores has been reversed. Sale of hotel property in Pune during the last quarter company has also sold shares of one of its joint venture company operating a hotel property in Pune as a strategy it been off with 100% profit. The future



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outlook, the year 2011-2012 witnessed policy and slowdown in this momentum which is expected to improve in the coming financial year. In view of this we are strategically focusing on which turnkey EPC projects and our real estate development projects will not only yield better margins, but will also help in generating steady cash flow going into future. I would like now to open the floor for Q&A session.

Moderator: Thank you very much. We have the first question is from the line of Ajit Surana from Dimensional Securities. Please go ahead.

Ajit Surana: I have few questions can you give me the component of other income of 39.7 Crores?

M. Krishnamurthi: Other income constitutes 39 is the exceptional income. It consists of what has happen and due to change in the format some of the real estate incomes due to sale of investments and all has moved to exceptional item while in previous quarters we have shown it as under that main income. Apart from this we have also reversed the provisions due the Samsara matter closing which is amounting to 20 Crores.

Ajit Surana: The remaining 19.7 Crores?

M. Krishnamurthi: The remaining 19.7 Crores we have about 10 Crores another reversal of provisions so balance will be from sale of investments one is Rose Premises 4 Crores and John Collar 2 Crores and one sale of fix assets in Nasik land which we sold.

Ajit Surana: What was the reason for such a sharp jump in raw material and other expenses? I thought you pass throw?

M. Krishnamurthi: If you look at the gross profit remains more than it is compared to the last year, gross profit has gone up slightly while that PBT has come down mainly because of non-absorption of the overheads and employee cost. While the turnover has dropped the amounts pertaining to overheads and employee cost has not changed much.

Ajit Surana: Reason for such a sharp fall in turnover only project delays or from your side or from the side of your party?

R. Vasudevan: Generally if you see out of our turnover 480 Crores or let us say 70% of the income is coming from EPC segment and most of your projects are third party. It is in the third party



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orders which we are facing resistance because of the slowdown in the company. We have a mix again there of work from real estate developmental work as well as the institutional work as well as a few government jobs very, very little of government jobs I would say and so this mixed in the overall slowdown most of the projects are going are at much, much lower pace and they are being delayed mainly because of the liquidity issues coming from the client side, but unfortunately we have not been able to drastically slowdown over this period the staff and other expenses, which we have started doing in the last quarter of this year. We have a much lesser figure in the last quarter but on the overall yearly figure it has not seen an impact, but coming forward these steps will make a difference as we see and also I think the interest cost because of the higher interest rates have also been there and generally the receivables have also been delayed, the cycle period has been delayed as a result of this even on EPC projects we have been forced to spend on us and wait for the bills to be realized it.

- Ajit Surana:** Interest shows a negative of two million in the entire year, how is it?
- M. Krishnamurthi:** Some of the project, which have to start we have capitalized the interest based on the advise accordingly the interest is there.
- Ajit Surana:** How much of the interest has been capitalized?
- M. Krishnamurthi:** 13 Crores.
- Ajit Surana:** Who have we donated 2.8 Crores and for what purpose?
- M. Krishnamurthi:** The 2 Crores has been donated to Sankara Eye Hospital, Ludhiana the balance is regular donations what we give to Ganapathy Pooja and other functions.
- Ajit Surana:** Thank you.
- Moderator:** Thank you. We have the next question is from the line of Lokesh Damani from MF Global. Please go ahead.
- Lokesh Damani:** Good afternoon Sir. This is regarding on the real estate division what will be inventory right now it will be having?



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- M. Krishnamurthi:** We have got about 350 Crores amount we can collect out of which this inventory pertaining to launched project is about 135 Crores.
- Lokesh Damani:** This is the new project?
- M. Krishnamurthi:** Completed project and the balance on the launched projects.
- Lokesh Damani:** 135 will be from the?
- M. Krishnamurthi:** Completed projects.
- Lokesh Damani:** On the hotel business side what will be our revenue for this year?
- M. Krishnamurthi:** Hotel is about 8.8 Crores about 10 Crores.
- Lokesh Damani:** Okay and any kind of new tie ups or ventures we are looking out into this?
- M. Krishnamurthi:** No hotel we are looking at strategic investments only.
- R. Vasudevan:** We will be exiting couple of investments.
- Lokesh Damani:** That will be even in profit like we have exited Rose Premises?
- R. Vasudevan:** Yes.
- Lokesh Damani:** On the EPC segment what is the outlook look like I mean the third parties are we having getting enough interest in the EPC segment.
- R. Vasudevan:** It is the other way round, actually this time, this year if you see our order backlog which I mentioned to you we have a backlog of 3024 Crores odd and we have performed last year only 450 Crores and all these order books are usually with a time period of one year to two years completion period. The main challenge of this order book and not getting utilized is the slowness because of the liquidity issues with the various clients. So order backlog is there it is only in terms of the execution is not happening and also because these projects have also been delayed it is not as it they have all happened only last year the cost are gone up, so as a strategy coming forward this year we are looking at niche projects we are looking at projects where we act as general contractors so that we execute turnkey because



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of our acquisition along with the E&P. We are better placed and we hope and we want to do more of turnkey assignments where they pressure on the bottomline will be better off, we will have the better margin and the coordination time delays will be extremely reduced.

Lokesh Damani: So these order backlog what we are having more of the chunk is fix price or completely?

R. Vasudevan: It is like this actually, usually we have a variable, we have coverage on major items like cement, steel and finishing items with a basic cost but we are not covered completely in terms of smaller items which have also contributed in the last one or two years because of sand shortage all of the sudden the sand is not available that has impacted us, another major impact has been labor. Labor is not generally covered under escalation. Labor escalation has also substantially affected the order line. Now wherever we have gone out of the project period and time lines and where substantial time delays have been caused by the client we are renegotiating our price. Now, wherever we have gone out of the project period and timelines and where substantial time delays have been caused by the client, we are renegotiating our clients.

Lokesh Damani: So there is no kind of stoppages from our side.

R. Vasudevan: There is only stoppages in the sense where we have found the client is not negotiating and is not able come forward to fresher terms, according to us the claims are not settled and things like that.

Lokesh Damani: So looking at this we have quite a large order book so executing it in next two years will be a very big task for us, do we have that kind of capability in terms of capital we have and assets we have?

R. Vasudevan: No in terms of the shuttering material or in terms of the equipment required we have in fact at present excess because last year we did 1000 Crores and this year we have done 750. We have capabilities as we can do easily do 10 million square feet of work in a year. That is the strength of the equipment and machinery which we have with us but we have not touched that.

Lokesh Damani: So basically we have a spare capacity, which we can use to speed on.

R. Vasudevan: At present we are underutilized.



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- Lokesh Damani:** So that means no major CapEx is there.
- R. Vasudevan:** No major CapEx.
- Moderator:** Thank you. The next question is from the line of Raunak Nagda from Value Quest Research. Please go ahead.
- Raunak Nagda:** Sir there is a sharp jump in other expenditure in this quarter from 15 Crores to 31 what was this related to?
- R. Vasudevan:** The other expenditures we have provided for doubtful tax about 7.2 Crores. Donation is again 2 Crores, increase in rent paid is about 3 Crores and bank charges one Crore.

Raunak Nagda: Is the doubtful debtor is related to HDIL or is this from some other account?

R. Vasudevan: Vascon about 3 Crores and GMT about 4 Crores.

Raunak Nagda: Can you name the client?

R. Vasudevan: We do not do that. What we do is we have bucket. Based on the bucket the percentage of provision has been provided.

Raunak Nagda: There were some receivables outstanding from HDIL also where we had stopped the work.

R. Vasudevan: It is continuing to be outstanding.

Raunak Nagda: That amount is?

R. Vasudevan: 13 Crores.

Raunak Nagda: That would be more than six months right?

R. Vasudevan: Yes.

Raunak Nagda: Have you provided anything for that Sir?

R. Vasudevan: Around 2 Crores we have provided overall. The additional provision is 3 Crores. So previous years also we have provided so pertaining to this about 2 Crores we have provided cumulatively.

Raunak Nagda: Any other debtor outstanding more than six months?

R. Vasudevan: Few are there like TNLA project Savitri Bhai Phule institutional work Sinhgad Institute in

Raunak Nagda: What is the absolute amount? Total debtor outstanding for more than six months?

R. Vasudevan: Debt outstanding will be about 90 Crores.

Raunak Nagda: Sinhgad how much Sir out of this?

R. Vasudevan: That will be about 25 Crores.

Raunak Nagda: In our EPC what kind of revenue we are expecting for next year?

R. Vasudevan: We are expecting the same numbers as what we have done this year in the coming year based again on our reading of the order book position. This may change in the coming days. I think every quarter we will have to do this.

Raunak Nagda: As of now we are expecting?



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- R. Vasudevan:** We are not even talking of fresh orders. We are only talking of the orders in hand.
- Raunak Nagda:** But generally the execution cycle of these orders of 1.5 to 2 years right?
- R. Vasudevan:** Two years is taking nowadays minimum 2.5 to 3 years. That is why the pressure is on the bottomline.
- Raunak Nagda:** Have you started on a work on the Bhiwandi warehousing project?
- R. Vasudevan:** Yes we have started. It is going but it has not picked up full momentum.
- Raunak Nagda:** How much revenue will be booked from this?
- R. Vasudevan:** 10 Crores.
- Raunak Nagda:** So how is the demand in that project?
- R. Vasudevan:** The bookings are good.
- Raunak Nagda:** What is the average selling price?
- R. Vasudevan:** Actually we are not selling there. We are only construction partners.
- Raunak Nagda:** So we will get the cost plus contract.
- R. Vasudevan:** Yes it is a cost plus contract; along with the developer we have formed a JV.
- Moderator:** Thank you. The next question is from the line of 16 KC Suri from Span Capital. Please go ahead.
- KC Suri:** Good afternoon and thank you for this opportunity. Just continuing on the previous delegate question, in the EPC revenue you are talking about similar like a 400 odd Crores revenue commitment this year right? So there has been a dip in the margins, which you said that is primarily due to labor escalation besides other things. So how do you see that panning out?
- R. Vasudevan:** It will still be under pressure same as what we were performing at that time but it will be better than what we did last year.
- KC Suri:** Under the real estate how much is our estimated construction expenses during the year?
- R. Vasudevan:** We will come back to you on that figure.



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- KC Suri:** You have 138 Crores receivables over the year from the real estate, am I right, is that correct?
- R. Vasudevan:** Correct.
- KC Suri:** You have a 90 odd Crore current liability, which would be paid off from that but do you also see that adding more land bank during the year?
- R. Vasudevan:** No we do not intend doing any land banking now, where again we have excess land banks, it is with us compared to the capabilities of what we are able to deliver year-on-year?
- KC Suri:** All your land is fully paid for right?
- R. Vasudevan:** Yes land is fully paid for.
- KC Suri:** You would not look at any further capital raise during the year either in equity or debt?
- R. Vasudevan:** No.
- K.C. Suri:** I will appreciate if you can get back on the figure?
- R. Vasudevan:** The cost on development is 69 Crores.
- KC Suri:** That is for FY'13 right?
- R. Vasudevan:** FY'12.
- KC Suri:** Would it be a similar number going forward also?
- R. Vasudevan:** It should be more.
- KC Suri:** Would it be like marginally more or substantially more, how would you like to have.
- R. Vasudevan:** I think at least it would be 30% to 40% more.
- Moderator:** Thank you. The next question is again from the line of Ajit Surana from Dimensional Securities. Please go ahead.
- Ajit Surana:** You people had filed a case against one of your employees in Bombay for some fraud. What is the status on that?
- R. Vasudevan:** Investigations are on.



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- Ajit Surana:** What is the amount involved?
- R. Vasudevan:** We have claimed a case on them on the unauthorized expenses to the tune of about 35 Crores. Now investigations are on and records are being scrutinized to assess the total amount.
- Ajit Surana:** Have you provided for this?
- R. Vasudevan:** It is already taken in our accounts actually.
- Ajit Surana:** Provided for.
- R. Vasudevan:** Yes fully. All the expenses have already been debited to P&L in last two to three years. Completely debited.
- Moderator:** Thank you. The next question is from the line of Nitin Idnani from ENAM Securities. Please go ahead.
- Nitin Idnani:** Good afternoon Sir. Just wanted to know what is the actual amount of this cost reset that was taken in the EPC? I wanted to know this cost reset that we have taken which has impacted margins in EPC. Any sense on what the actual quantum is, the figure per se?
- R. Vasudevan:** 32 to 35 Crores.
- Nitin Idnani:** In terms of the current order book 2440 Crores from third party this also is being renegotiated given the increase in labor cost etc. Any sense on how much of this 2440 has already been renegotiated?
- R. Vasudevan:** We do not have a split figure of that.
- Nitin Idnani:** But in sense would it be like as of percentage I wanted to know how much of this is already been sort of done?
- R. Vasudevan:** It is usually a step-by-step process as we move forward. So suppose we have on going talks let us say talks on 10 items we would have had success in three or four items and it is not as if the balance six is forgotten, we will keep the pressure on, on the balance six items also and it is like a give and take type of situation which we need to continue doing the work because we cannot just abruptly start and do a blackmailing type of an activity, it is more of a negotiated type of activity with good amount of pressure being build up both for the client and for us and that is how we feel it is the way forward that we can keep up our name and also get some money. It is a tough situation to come out of but the clients many of these locations understand this and it is not as if it is one of case, if not us we also had exposure to other contractors also things are happening.



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- Nitin Idnani:** Any sense on if we can expect any cancellations over here?
- R. Vasudevan:** It could happen.
- Nitin Idnani:** Like what comes to mind immediately is the Bhiwandi Logistic Park that being 1100 Crores itself, would that be renegotiated?
- R. Vasudevan:** That is the cost plus contract so that does not affect.
- Nitin Idnani:** So the margins in FY'13 essentially you said will also remain under pressure. This would be because of the revenue on the EPC front coming from projects which are ongoing. So you do not expect to start any new projects which is been renegotiated during the year is it?
- R. Vasudevan:** No the projects which are on also are being renegotiated.
- Nitin Idnani:** But you will still be executing some under lower margins.
- R. Vasudevan:** Yes.
- Nitin Idnani:** Just one clarification on GMP I know the gross profit margin in GMP is much higher than EPC but on the EBITDA level if I am correct I think it kind of works out to the same as EPC does not it?
- R. Vasudevan:** Almost yes because the employee cost is quite high.
- Moderator:** Thank you. The next question is from the line of Ameya Mahurkar from GeeCee Investments. Please go ahead.
- Ameya Mahurkar:** Any expansion plan in GMP?
- R. Vasudevan:** We are looking at it but not in the first half year.
- Ameya Mahurkar:** Any strategy for hospitality business?
- R. Vasudevan:** Hospitality business strategy has always been like we have been in this business mainly as opportunistic investments, so wherever we have these opportunistic investments we get in and we either exit fully or exit partly and then exit at a later date to get full value. So either we exit 35% immediately or do the balance 25% little later when the product is stabilized or we exit entirely and way forward will be the same policy, we do not intend holding or making hospitality division of our own in consolidating here. We do not intend doing that if you are asking me that.



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Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Mr. R. Vasudevan for closing comments.

R. Vasudevan: Thank you very much. We look to better times in the coming year. Thank you.

Moderator: Thank you, on behalf of Vascon Engineers Limited that concludes this conference call. Thank you for joining us, you may now disconnect your lines.