



“Vascon Engineers Limited Q3 FY 2014
Conference Call”

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MANAGEMENT: **MR. S. SUNDARAJAN**
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Interview

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY 2014 earnings conference call of Vascon Engineers Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Santosh Sundarajan, CEO of Vascon Engineers Limited. Thank you and over to you Sir!

Santosh Sundarajan: Good morning everyone and warm welcome to Vascon Engineers post results earnings call. Along with me we have our senior management team, Mr. M. Krishnamurthi and Mr. D. Santhanam.

To begin with, I will give a brief summary of our results and key developments in this quarter and then we will take questions from you.

Once again this quarter witnessed an increase in interest rates by RBI to rein in a double digit retail inflation. With this hike in key rates real estate developers particularly in the residential segment are impacted. This followed a reduction with current year growth forecast for the nation. We continued to witness weakened user demand and adverse consumer sentiments, but despite weak sales, prices have increased across Delhi, Bangalore, Chennai, Pune and Hyderabad. Clearly demand is from tier II and tier III cities supported by end user demand rather than investor demand.

Coming to the financial results, the company on a consolidated basis recorded revenues of Rs.175.93 Crores as against Rs.145.14 Crores in Q3 FY 2013. The loss before tax for the quarter amounted to Rs.10.48 Crores as against a loss of Rs.20.36 Crores in the same period last year.

Moving onto different segments, the EPC segment, this segment has contributed Rs.54 Crores of revenue in this quarter. Our EPC order book as on December 31 2013 stands at Rs.850 Crores and in the current quarter we have received a new order of Rs. 135 Crores taking our fresh order intake for the year to Rs.252 Crores. We are also in final stages of negotiation for another Rs.250 Crores worth of contracts.

The TNLA project has finally commenced on full swing and this will bring us revenues as well as profitability going forward.

Even the PRA project, which was on hold, has now been recommenced and this has been renegotiated and will also get us topline and bottomline.

Our current order book is much healthier in terms of profitability of the contract. In the real estate segment, the projects under construction are moving ahead as per schedule. During the quarter, this segment contributed revenues are Rs.58.3 Crores as against Rs.28 Crores in the last year same period.

During this quarter, we have sold a total area of 73,985 square feet for the total sale value of Rs.47 Crores; average sales realization is about Rs.6,300 per square feet. Cumulative area sold from projects under construction stands at 1.67 million square feet. The total sale value of the area is around Rs.7,736 Crores.

In the current quarter, we have launched a new project Platinum Square in Viman Nagar, Pune with a total saleable area of 92,000 square feet. Total sales during the month of January 2014 are around 10,800 square feet amounting to a sale value of about Rs.8.3 Crores on this project. We are working on launches of new phases in existing projects to improve revenue from this business.

Coming to our third segment, clean room partitions & BMS, this segment is growing consistently for the last few quarters. This quarter it has contributed Rs.58.6 Crores in revenue. In this segment we are very focused on expanding our rates across domestic markets as well as overseas markets. With efforts towards increasing proportion of exports in sales and building and healthy order book, we are striving to deliver strong performance.

Finally, I would like to emphasize that we are continuing our efforts towards the improving cash flow and with those we reiterate our confidence in this sector, our business and its future prospects. Thank you. We would now like to take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre: Good morning Sir. In your opening remarks you mentioned that the real estate business outlook seems to be a bit weak given the environment all over the country. So, what is the outlook for our business, the real estate business over the next 12 to 18 months?

Santosh Sundarajan: Real estate business impacts us in two ways. One is our real estate segment directly and the second is our contractually EPC segment, it is also indirectly dependent on real estate business of our clients. Having said that this lull in the real estate segment has been around for the last few quarters and I think most developers have reconciled to the pace at which sales are going to happen as we said sales today are much more from the end user than they are from investors. This obviously means a good drop in number of sales that anybody is achieving per month. So we have reconciled to these rates of sales and I think our projections for the next few quarters are based on rate of progress of sales only.

Mahesh Bendre: Do you think some of the markets where we have present like Pune, there is a case for some price correction, so the affordability will come back and the volumes will come back?

Santosh Sundarajan: To be honest, we do not think so, the demand is being governed by the price at the moment. As we said investors are pretty much out because of the sentiments and the end user is also someone who wants to purchase house, will do it a few Rs.100, we are in there. I do not think in the current market, price is a real decision maker which is affecting. So we do not think it is the right time for us to drop prices. We do not think that kind of strategy will drastically increase our sales in the short-term and in our industry it also back fires because for customers whom we have booked at a higher price, when we drop our prices, it is not easy to retain customers if we have sold at a higher price. So, we would not be increasing prices aggressively obviously, but we will hold prices and takes the sales as become.

Mahesh Bendre: What part of your constructions and unsold inventory, what part of that belongs to the commercial segment and how the outlook is there?

Santosh Sundarajan: Commercial is of course much weaker than residential and that has been in the case for the few quarters, and it continues to be so. IT, in fact, was even within the commercial sector. Having said that, we have launched this Platinum Square project, which is a commercial building in this quarter, and we have received decent response because of the sizes of the offices and the location of this project. For the small projects like this, we are still bullish. We have couple of such projects going on. We have Eco-Tower in Baner, we have Platinum Square which we have launched in Viman Nagar, we have Garnets Bay in Viman Nagar, these are all small single commercial buildings up to one lakh square feet with small offices. So in this segment, we still feel, we have both investor as well as end user absorbability. The bigger offices, full floor play of 20,000 square feet, that kind of action has stopped happening.

Mahesh Bendre: That is helpful Sir. Thank you.

Moderator: Thank you. The next question is from the line of Vinod Malviya from East India Securities. Please go ahead.

Vinod Malviya: My question is a little macro, so can you just give me a view on the EPC sector going forward?

Santosh Sundarajan: When you say macro, I will answer that with respect to Vascon. From our point of view, we have been saying this over the last few quarters, EPC had been done, we have been taking steps to ensure, we are doing what we are saying in terms of getting away from low profitability projects and not being aggressive to fill our order books with not so healthy projects, so we have been patient, we have been only looking for orders that make sense, when I say make sense that you know on paper at least look like have a GP of 20% minimum. So these projects are not easy to come by today's market with real estate itself being sluggish, but we have not been in a hurry to grab order books which as reflected in our performance, but we kept our calm and as it stands today from our perspective we have gotten out of all non-healthy projects, yet for some negotiations of final claims with the clients are still going on, so the effects from the balance

sheet, it will continue to come over the next two quarters plus or minus, but we have gotten out of the sites, we are not working anymore on projects which we are not happy with and all the new projects that we are started our healthy, so far running on time, we are getting paid on time so far. So, we have positive in that, we have turned the bottom in terms of that we sell into EPC and we would not be committing fantastic growth rates of 30%, 40% a year till we actually see the real estate market itself only.

Vinod Malviya: Second question was related to this, We had new launches in Pune, so what is the response over there sir for real estate?

Santosh Sundarajan: The Platinum Square as I said is the commercial project about 92,000 square feet. This is more towards the retail customer with smaller officers, individual buyers. The response has been good. A lot of enquiries on the day of launch, we have booked as I said almost about more than 10% - 15% of the project has been booked and we are continuing to get phone calls, so we do expect that we will complete booking this project over the next few months. Similarly, Garnets Bay and Eco-Tower, the other small commercials that we are doing, we are confident that over the next few months we will complete the bookings and again the Forest County Project Phase II that we have launched, we are getting steady bookings every month. So, as I said earlier we have digested the space at which sales is happening and we are confident that this space for the next few months we will continue to sell. We do not have any aggressive launches in terms of bigger commercial spaces in this market, so slow in steady yes, but I think we will carry on like that.

Vinod Malviya: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Good morning. Sir, couple of questions. First one was on your order book. The Rs. 850 Crores order book that we have, what portion of it comes from our captive real estate division if you can help us?

Santosh Sundarajan: This Rs.850 Crores is all third party order book. So it is an EPC order book which are orders from third parties, so there does not capture our captive, you are right, our captive construction will also give us the runrate every quarter, but that get captured as real estate component.

Ravi Mehta: Earlier we used to have portion of low margin orders in the book which we were executing overtimes, so what is the status, are we still having some orders pending or we have done with it?

Santosh Sundarajan: We have couple of orders, which as I said we have always followed a strategy of trying to exit all this low margin projects, which got stuck for one reason or the other, but this strategy has always been multifold. Somewhere we were able to stop work and we are in dispute with the client, some places we were able to stop work and negotiate with the client. In couple of cases which I mentioned earlier as well I think it is Ahmadabad project and project in Bombay NBCC where we do not have great margins, but we are not in a position to stop work contractually on these

projects, our risks are very high, guarantees and materials with the client are quite high and we do not want to get into a situation considering our cash flows at the moment, we do not want to get into a situation where we have to back some cash flow hit from these projects. So, we are carrying on with these two projects. Ahmadabad one will go on for another two quarters, but the first quarter of next year, it should get completed. The NBCC one will take another four quarters to get completed. Other than these two projects, all the other projects where we are working on at site are healthy projects with healthy margins.

Ravi Mehta:

What would be the amount of these two?

Santosh Sundarajan:

Another Rs.30 Crores order in Ahmadabad and another about Rs. 40-50 Crores in NBCC. So we have about Rs. 80 Crores of project where it is not a loss, but there is no profit.

Ravi Mehta:

Okay and there was talk of stake sale in hotel projects, which we have, so I am not aware whether any progress on that?

Santosh Sundarajan:

No. We have discussed it is with a couple of agencies. The market is sluggish for hotel sales, evaluations of hotels in this market has also been to an extent that it does not even cover the debt that is there on the books or hotels. So, to be honest, we have not made very healthy progress on those, but we are still trying.

Ravi Mehta:

What is stake we hold in the hotels?

Santosh Sundarajan:

In which hotel?

Ravi Mehta:

I think we have four hotels.

Santosh Sundarajan:

In Coimbatore we hold 70% stake in share of hotels that has been constructed. In Goa, we have running hotel called Galaxy where we hold about 45%. In Holiday-Inn Pune, it is running hotel we hold about 30% to 35%. In Hyatt, Pune which is also running hotel, we hold close to 20%.

Ravi Mehta:

Okay, you are trying to sell all the stakes or selectively?

Santosh Sundarajan:

No, we are open to selling all, but as and when we get reasonable valuation. It is not a distress sale that we are desperate to get out, but the mandates are in the market. So when we get reasonable valuation any we are open to sell.

Ravi Mehta:

Okay and what would be the position of debt and cash, if you can help as on December?

Santosh Sundarajan:

The consolidated debt is about Rs.367 Crores and the cash balance is Rs.53 Crores and the net debt comes to about Rs.314 Crores.

Ravi Mehta:

Okay and how about the new orders as you were sharing in your opening remarks in EPC you have already got some Rs.135 Crores order in this quarter and some negotiations for another

Rs.250 Crores orders going on, so how is the pipeline in terms of new orders flow, how you see that?

Santosh Sundarajan: We have been trying for a while, but we still maintain that we will only go to that extent in terms of dropping our prices. So, we have been letting order flip below us to contractors as well more aggressive, but as a strategy we have still maintained that we do not want to just fill up our order book and then face or struggles a year later. So, these orders we have been fortunate enough Rs.135 Crores order is the Lucknow Development Authority, housing order there, the tender as we will open we are L1, and we should get LOI in the coming week. So that has also been filled with margins as we hope to get as I said GP of upwards of 20% and the other two orders we are negotiating are also at the last stage where verbally we have almost close the deals, I would not want to reveal the client in this concall, but hopefully next concall will have the LOIs in hand to declare that.

Ravi Mehta: It would be similar GPs of 20%.

Santosh Sundarajan: Yes.

Ravi Mehta: Okay and these kind of GPs generally how it boils down to company level EBITDA if you can give some idea on that?

Santosh Sundarajan: That is a good question. I will tell you as it stands we have about Rs.100 Crores of post GP expenses. When I am saying that I include salaries, admin, and interest and depreciation. So, we have about Rs.100 Crores, we have done a lot to bring this down. We have brought salaries and admin down quite a bit over the last year. Interest will only come down if we manage to sale assets and repay debt at a faster pace, we are trying. That is one strategy, which we are focused. Having said that we had at about Rs.100 Crores of these expenses today, so we need to do if I have GP of 20% to cover these expenses I need to do Rs.500 Crores.

Ravi Mehta: What kind of execution period these projects?

Santosh Sundarajan: These are typically two years, 24 months to 30, 36 months max, so it should happen within two years.

Ravi Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Manju Bashini from Sundaram Mutual Fund. Please go ahead.

Manju Bashini: Good morning to the management team. Sir during the quarter I think the EPC business that we have shown is around Rs.54 odd Crores of revenues recognized, but if you do the math, I think last quarter, the order book was around Rs.900 odd Crores right?

Santosh Sundarajan: Right.

Manju Bashini: We have accrued Rs.130 odd Crores during this quarter and the order book as on date is Rs.850 odd Crores, so which means around Rs.191 odd Crores of what has been executed?

Santosh Sundarajan: No, sorry.

D. Santhanam: This Rs.135 Crores order in the fourth quarter.

Manju Bashini: So, we have accrued Rs.135 during the quarter?

Santosh Sundarajan: This quarter that you know current year.

Manju Bashini: Okay, it is not in Q3, what was the order book accretion during Q3?

D. Santhanam: Nothing.

Manju Bashini: Okay, we have not got any new orders in Q3, is it?

Santosh Sundarajan: No.

Manju Bashini: Okay fine and from the hotel property sales, what is the expectation, how much do we expect what is the quantum to be realized from the sale of these hotels?

Santosh Sundarajan: From a cash flow angle, I will tell you the Goa hotel should get us about Rs40 Crores of cash flow. The Holiday-Inn Pune if sold for a gain, get about Rs.35 to Rs.40 Crores of cash flow. If Coimbatore is sold off, then we should get about Rs.8 to Rs.10 Crores of cash flow and this was the three right.

D. Santhanam: Hyatt in this market, it is a far stretch to actually get a reasonable sale, so we are not even counting on the sale of Hyatt. These other three we are working on actively, in totality could get us Rs.100 Crores of cash flow. In terms of profit and loss I am not sure we have to check balance sheet how much has been accrued and what would be the profit released if these are sold at these expected prices.

Manju Bashini: The issues is here in the valuations that we are not able to go ahead with the selling of these properties or you think there is not interest at all in any of the hotel properties right now in the market place? What is hindering us from this sale process, because we have been hearing about the efforts taken to get rid of the non-core assets then try to reduce the debt end make the balance sheet better from 1.5-2 years, but there seems to be no progress at all. Sir, I am just trying to understand where is the hitch? Is it because of general market conditions or we have gone to the extent of closing the deal and then things did not work out, because of valuations. Where is it happening?

Santosh Sundarajan: To be honest, it is not like we have backed out of many deals because of the last Rs5-10 Crores of valuation. We have been ready to be flexible knowing very well we have interest on our books which is costing quite a bit currently, but we are not getting offers, there is no interest essentially,

we are not seeing any interest, we have floated the enquiries to good brokers who know the market, but we are not able to get interest in this market from someone to purchase hotels at the price that they come.

Manju Bashini: All these places remaining stake is held by the land owner or who is occupying the remaining?

Santosh Sundarajan: No, we have partners. In Galaxy, we have the operational partner, Royal Orchids who holds the reminding stake. In Holiday-Inn, we have three other investors, high networth individuals, companies who are with us. In Coimbatore, we have pre-called from Coimbatore who is with us, so everybody our partners are all ready to exit, there is no hindrance from our partner side even a very reasonable valuation, so we are ready to negotiate and exit, but we are not getting offers essentially.

Manju Bashini: The new launch which you mentioned in Viman Nagar, this is a commercial property is it?

Santosh Sundarajan: That is right.

Manju Bashini: Okay, so this is build and sold, you are not going to lease it out and derive annuity revenue, will it be sold?

Santosh Sundarajan: No, we are planning to sell it.

Manju Bashini: Okay, the entire area is built and ready to be sold?

Santosh Sundarajan: No, it is just launched. We are just starting construction at site.

Manju Bashini: January sales of some 10,800 odd square feet you said right?

Santosh Sundarajan: That is right.

Manju Bashini: Okay, at this stage, we are successful and selling?

Santosh Sundarajan: We just launched the project without starting construction and we managed to sell about 10,000 square feet without of course there is nothing at site there is only land today, we will be building it over the next year-and-a-half.

Manju Bashini: Sure and on the residential front, where any new launches this time around Forest County Phase II was happened in the last quarter?

Santosh Sundarajan: Correct, so this quarter, we have not launched any residential.

Manju Bashini: What is the timeline? What do you think we can do in on the residential part in the next 12 odd months? Where do you think the launches can happen, because some of the large projects like for example, Sriperumbudur one and etc., are not going to happen in the immediate term I believe, so where do you think the new launch, you can come in the real estate?

Santosh Sundarajan: Talegaon was one place where we are now. We had a dispute with the landowner, which has been resolved, but in the meantime we have been pushed back, because of this new ruling from environmental which now does not permit us to start even 2 lakh square feet without having an environmental certificate in hand. A year ago, we have permitted to go up to 2 lakhs square feet, so we were using that to start projects and parallelly, get our environmental approvals. Now, they have strictly not permitted any project to commence without environmental approval, so the environmental committee got disbanded and now they have reassembled, so we are in the process. Our file is in queue for Talegaon, we are trying to push it, so hopefully the environmental approval comes, we can quickly get the NA and the plan approved and start construction on that project. So, that could happen anywhere over the next six months hopefully, so that is one project we can launch which is the big project where we could aggressively price of sales and get some good sales.

Manju Bashini: Total scope of that project is around 3 odd million square feet right?

Santosh Sundarajan: The total scope is about 3 million square feet, you are right.

Manju Bashini: That is split into phases again, I believe you launched. The first phase will be launch, which is roughly 50% of that?

Santosh Sundarajan: We were originally looking at launching only about half million in first phase. Now as it goes once we get our environmental approval we will take a revised call on how much we want to launch, but it does make a difference, we can keep launching, once the environmental in place, plan approval is a matter of two months, there is no problem in plan approval. So, if we see sales, if we launch half a million, if we see sales we can quickly launch another half a million that is not a problem.

Manju Bashini: Okay and how are the expected rates, how would that be sir, whenever we do this launches?

Santosh Sundarajan: It is difficult. Talegaon again the prices have increased a little bit compared to what we tried to launch at the year-and-a-half ago. We were talking about 2500, 2700, now it is upwards of 3000, so may be if you want to be aggressive it would be 3250 if we want to be realistic and take it bit slow it could be 3500, but again as I said we are still about six months away the environmental is not in our hands. So once we have that we will try and have pricing strategy in place and then discuss on that.

Manju Bashini: That is one project, apart from that, what else can be expected in the next year?

Santosh Sundarajan: Next year, we are again trying to close it on the investment on the Kalyani Nagar projects. If that happens that could also come up for launch, because that is also not a very long term process in terms of approvals our infrastructure. So that is one possibility and in Coimbatore, we will launch our phase III in Tulips, so we are now doing phase II, we have already started the designing of phase III, so phase III would also get launched. I think these are the ones that could. In Ela the other second building has already launched that could get sold. In Xotech, we are waiting for

approvals again environmental approval for selling the second building, so all of these could come into the sales book over the next six months.

Manju Bashini: The Kalyani Nagar project, what is the scope of the project Sir?

Santosh Sundarajan: Kalyani Nagar project could potentially give us...

Manju Bashini: This is a JV project right?

Santosh Sundarajan: Yes, it is a JV project.

Manju Bashini: Okay, what would be our share there?

Santosh Sundarajan: We have about 55% share as it stands and there we have a potential of 6-odd lakh square feet and we could sell Rs. 12000 upwards in Kalyani Nagar.

Manju Bashini: 6 lakh square feet would be our share alone?

Santosh Sundarajan: No.

Manju Bashini: Okay, it is the total area. Okay and the Coimbatore one Ela and one Xotech what would be the square feet that can be launched?

Santosh Sundarajan: I think Ela and Xotech each building would be about 75,000 square feet, so one building each, so that is 1.5 lakh square feet of sales that could come in or inventory to sell. In Coimbatore again phase III would be about 1.5 lakh square feet.

Manju Bashini: On the EPC side, I think, last time when we spoke also you had mentioned going forward whatever project that we are growing or at healthy margins and now also you mentioned around 20% at gross profit levels is what we are looking at? Where is this again coming, is it skewed again from the real estate players or from where else do you think there can be some order attrition happening, because this Rs. 135 odd Crores which you mentioned as again from the real estate developer right or is it some Lucknow Development Authority?

Santosh Sundarajan: We are getting mix bagged here. We would love to be choosy on the kind of client we want to take, but again if we are choosing on all accounts then we end up with getting nothing, so we were lucky enough in the last year, we have got an order from Sadhu Vaswani which is a trust. It helps your finances in place. We have got order from DMC for hospital and college construction in Ludhiana, which is again a trust which has their money in place, they are not real estate, players depending on any market. We have got an order from Godrej which fortunately they have also done well in sales and given creditability of Godrej as a client they have also had money in place with respect of sales to a certain extent, so we have been getting our cash flows there. So, three of these were good clients which we will lucky enough to grab. This year, the order that we have talking about Lucknow Development Authority which is not a private player it is again a government, although is real estate and we are selling houses to the masses, and it is government,

so they do start projects only when the funding is in place. So we do not anticipate any dependability on retail sales for our money to come in as an EPC vendor on these projects.

Manju Bashini: But you believe that this project can take off in the current quarter in the Q4 results?

Santosh Sundarajan: This Lucknow Development Authority is doing wholesale construction there. There are L&T and Simplex, Nagarjuna players who were already been doing the works there. We have been trying to make an entry over the last two quarters, finally we have broken in. Now, a lot of work is happening there, they have been paying on time, they have been pushing the works there, so we positive that we should not end up in any hiccups there.

Manju Bashini: There were no cancellations during this quarter on EPC side? Is that correct understanding or where there any project that got canceled or written off or anything of that sort that happened in this quarter on EPC of the business?

Santosh Sundarajan: No, nothing.

Manju Bashini: Okay and in the press, in the past, we read through that there is a land parcel in Pune wherein Apeejay Group is one of your partners and there was some news on that. Any progress there, what has happened, would Vascon get some money out of this deal?

Santosh Sundarajan: The cash flow we will realize is nothing significant may be for the Rs.5 Crores. This was the deal at Wakdewadi in Shivaji Nagar where we were constructing a hotel for the Palm Grove. We were 26% partners in the company per Angelica where Credit Suisse was the investor for the balance 74% and this deal was actually stuck long ago with Park for complete construction of the hotel shell and transfer of the land. Somewhere in between it got stuck because of certain approval issues with the waterline of the river and subsequently Park has also not been now wanting to complete the project. So, we sort of stuck the deal and got an exit where we finally did the conveyance to them. So, although it is being reported today, this deal is an old deal which was under various stages of we constructed for a while and then we held on and now we have basically exited.

Manju Bashini: Exited and we got our share of money back or?

Santosh Sundarajan: We have been getting our share of money all along, so when the deal talks about Rs.100 Crores, it is not like deal today for Rs.100 Crores. We have been getting our share of money. We have been constructing we got a good share of money long ago for the land component, so these cash flow and these profits have been recognized by us already.

Manju Bashini: Nothing is yet to be recognized, it is already there in the numbers?

Santosh Sundarajan: We conveyed the land two days that is why it came out as a news and as I said final amount of Rs.4, Rs.5 Crores cash flow come to us on account of this.

Manju Bashini: But the project still the hotel project, is it being undertaken by someone else and they are going to continue with that, any clue on that?

Santosh Sundarajan: This project belongs to Park. They are hoteliers. They have already done for flags on this project with a hotel design in mind. So, having said that we do not know how they wanted to take it forward in this market. Now the call would be entirely theirs.

Manju Bashini: None of our construction spend is yet to be realized or anything from that project per side effects?

Santosh Sundarajan: Nothing. We have received everything except Rs.4 Crores which we will received now, there is nothing pending.

Manju Bashini: Thank you Sir. Thanks a lot.

Moderator: Thank you. Next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: I just wanted to check when we get these orders from government organization, what kind of guarantee there must be some performance guarantee or something that we have to furnish, is there something like that?

Santosh Sundarajan: Yes, in government agencies, there is no scope for negotiation on terms, because the terms are common to all. There is no meeting where we can put in our terms. Typically the performance guarantee that they ask for about is 5% of the project value.

Ravi Mehta: When you get the order in hands, so immediately you have to arrange for this?

Santosh Sundarajan: Yes.

Ravi Mehta: Even after completion and delivering, there would be some retention money which is released after a period of time. I think that is also one of the norm?

Santosh Sundarajan: Yes, so they do hold back retention and towards the end of the project we can release our retention cash flows by submitting bank guarantees towards the same and these warrant guarantee would be valid typically for a period of one year after completion which is called the defect liability period.

Ravi Mehta: Okay and from the order book that we have, if you can share what would be government orders, just to get a sense?

Santosh Sundarajan: Rs.135 Crores, I talked about it is not a part of this Rs.850 Crores order book, because this is just a recent news in the fourth quarter. In the Rs.850 Crores I think the only active government order is the TNLA one and NBCC one. So, NBCC we have order backlog of about may be as I said Rs.40-50 Crores and TNLA another close to 100 Crores, so 150 Crores odd would be government order.

Ravi Mehta: The other order which are private, you do not have these guarantees in retention?

Santosh Sundarajan: There are conditions in many contracts. As I said now in private we have been aggressively negotiating terms. In the Godrej order, the DMC order and the Sadhu Vaswani order that we picked up last year we have not given any performance bank guarantees. We have managed to negotiate those terms. So as you said in the private sector, there is a possibility to negotiate these terms in the government sector, there is no possibility at all.

Ravi Mehta: Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Santosh Sundarajan: I thank everyone for the participation on the continued interest. We have been giving results, which are not happy results to say, but I hope you do have patience and faithfulness for a while longer we will turn this around. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Vascon Engineers Limited that concludes this conference. Thank you for joining us. You may disconnect your lines.