



“Vascon Engineers Limited Q2 FY18
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good morning and welcome to the Vascon Engineers Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Sundararajan – CEO of Vascon Engineers Limited. Thank you and over to you, sir.

Dr. Santosh Sundararajan: Thank you. Good morning, everyone. Welcome to the Q2 and H1 FY18 Earnings Conference Call of Vascon Engineers, one of the leading construction in engineering company. I have with me on this call, Mr. Rajesh Mhatre – CEO of our Real Estate Division, Mr. Santhanam - our CFO, Mr. Krishnamurthi - our Chief Corporate Affairs and Stellar Investor Relations - our advisors for investor relations. The investor presentation for H1 FY18 has been uploaded on the exchanges and I believe you would have gone through the same. I will initially share the developments during the first half of FY18 and our strategies going ahead, post which we can address any questions that you may have.

We have made sincere efforts to reinvent the company and are ready to embark on the huge growth opportunities available in front of us. We are on the phase of growth and gearing up to scale new heights. To achieve what we aspire we are strengthening our current team across functions with dynamic professionals from the market. Key developments of H1 FY18, we have made sincere efforts to optimize cost across all business segments and strengthen our Balance Sheet. I am happy to say that SMERA ratings has assigned a stable rating of BBB- for long term fund based facilities and SMERA A3 for company’s short-term non-fund grade facilities. This investment rate rating will help us in enhancing our working capital limits and also effectively reducing our finance cost.

We have received a strong order intake of around Rs. 370 crores in FY18 till date. This includes an award of an order of 236 crores in Andhra Pradesh in the growing affordable housing space. The company at present has a third party EPC order book of 720 crores spread over various building segments in various states. This is a staggering 74% growth in the order book size from 500 crores in March 2017. We have around 1,000 crores to 1,200 crores of orders in the pipeline to be procured in the next 8 months to 12 months, with a judicious mix of private and government orders, including projects in affordable housing space.

We are strengthening our team in the real estate division with aggressive and young people supported by the able leadership of Mr. Rajesh Mhatre. At present, the real estate team consists of around 50 employees which has increased from just 7 employees in March 2017 and we have a target to take it up to 100 people team by March 2018.

We have successfully launched and sold Phase-II of Platinum Square, an ultra-modern luxury boutique office space in Pune in September 2017. This commercial property has an area of

approximately 130,000 square feet and it received excellent response in the first few days of the launch itself. We will be launching the Phase-III of our prominent residential projects Forest County in Kharadi in Q3 FY18. We had earlier successfully executed Phase-I and Phase-II of the project and as it stands the project is completely sold out. We have planned launches of 5 projects in the next 6 months to 8 months.

We have prepared to capitalize on the huge opportunity in the affordable housing segment both in EPC as well as real estate. In the EPC segment, we are focusing on large and high values civil contracts offered by the government as well as reputed private developers and look to complete the projects in plan time and cost and generate positive cash flows.

I am happy to say that the order win of 236 crores in Andhra marks our entry into growing affordable housing space. We have one of the best construction capabilities and have the potential to construct any project in the affordable housing space at a much competitive cost than most of our peers. In the real estate segment we plan to launch projects in Pune and cities where Vascon has existing presents. The target customer segment will be self-employed and low salaried personnel with fast moving product mix of one room kitchen, 1BHK and compact 2BHK apartments. The strategy is to generate better cash flow in each project with liquidating significant inventory at the launch of the project itself.

We have identified a couple of land parcels for affordable housing projects in the current financial year on joint venture basis. One of the land parcels is that Katvi, Pune which is actually our own ownership plant with potential developable area of 0.46 million square feet. The other land parcel is at Talegaon, Pune where we have a joint development agreement with land owners. The total developable area will be 1.16 million square feet there.

We are aggressively looking to liquidate the non-core assets and use the proceeds for the growth of our EPC and real estate division. During the first half of financial year 2018, we have generated a cash flow of 75 crores and expect to realize further cash flows of about 100 crores from the rest of identified assets. The cash flow generated till date will be utilized towards repaying high interest bearing debt and working capital for ongoing projects.

Moving on to the financials – during H1 FY18 the company reported a total income of 143 crores as against 135 crores in H1 FY17. EBITDA for H1 FY18 was Rs. 18 crores as compared to 21 crores in the previous year. Profit after tax was 3 crores in H1 FY18 as against 2 crores in H1 FY17. The company did new sale booking of 151,939 square feet amounting to a total sale value of 110 crores in H1 FY18 against new sale bookings of about 100,000 square feet for total sale value of 60 crores for the full financial year in 2017. Total consolidated debt as on September 30, 2017 stand at 280 crores which is marginally in lesser than what it was in the previous quarter.

We are focused towards growing our EPC order book and remain committed towards improving operational efficiencies, cash flow generation and strengthening of our Balance Sheet. We are confident of delivering much better performance going forward.

This is all I want to share, thank you. We can now take questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Rohit Natrajan from IDBI Capital. Please go ahead.

Rohit Natrajan: Sir, I just had a query on this EPC order back log. So, in the past that we have been very conservative in terms of bagging the government orders because we had two consecutive year losses and other such things, such financial criteria was not matching. But now that we have improved over a period of time, why cannot we have very stronger order inflows from the government sectors. While I do understand that there are something in pipelines, sir. I am just looking it from the numbers perspective, why cannot we have a bigger number?

Dr. Santosh Sundararajan: So, yes we are definitely now targeting to increase that order book value. Government sector is coming up with projects, while still being judicious we are getting a bit more I would not use the word aggressive but we are getting a bit more trying to get a few more orders for sure. There were issues to do with the finance side of things with the availability of bank guarantees at appropriate margins which were also hampering our growth in terms of booking orders. Now with this new SMERA rating we have also gone back to the banks already the interest rate has come down and the margin will be revised shortly. We are also looking at augmenting our BG limits with them. With all these developments on the finance side of things in the company definitely it is a target that we have to increase our order book both on the private as well as the government side.

Rohit Natrajan: Just to harp on this side, sir, this availability of bank guarantee I would like to believe is now being sold and within 3 months or 4 months itself there are lot of tenders already floating in the market in fact NBCCs few projects are there already. So is that the big chunk of orders can we expect from this fiscal in this government orders space?

Dr. Santosh Sundararajan: So, see definitely as I said definitely once the BG limits are in place we will be filling a lot more tenders. Some of these tenders we have currently been skipping because we are not in a position to put up of those BGs we bagged them. But let me also put in a word of caution, we will not be negotiating our desired margins when we bid these tenders. We will not be hungry purely for topline and bottom-line is a must and so very often some of these tenders in competition some of our competition too undercut and grab these orders at numbers which we do not understand internally and we will remain cautious on that front. So, there is no compromise on expected bottom lines.

Rohit Natrajan: Then coming back to this commercial monetization plans, of you have stated that the plans this time you have some cash flows expected, the non-core that you wanted to divest of the assets.

What could be the quantum of amount that we can expect from this non-core investments divesting of this non-core investments?

Dr. Santosh Sundararajan: See, our non-core investment consisted of quite a few smaller apartments and projects that we have completed and a few apartments we had here and there. We have aggressively being pushing for those to be sold, a small office in Bombay got sold. So, all of this smaller inventory we will definitely target to finish that off before March 2018. But our assets also consist of couple of bigger chunks of assets like, big office space in Andheri or a hotel investment in Goa. These also we are targeting and we have enquiries coming in, if one of these sells obviously the number that we will be able to talk about in the next 2 quarters would be high. This year we still targeting 100, see we have non-core assets worth more than 200 crores which we want to slowly sell off. This year our target we are internally taken for the 100 crores hopefully by March.

Rohit Natrajan: Just to touch upon this the annual employee expenses, the employees I see, there is a significant jump and you were rightly stating that you have plans to increase it and in terms of real estate team and other such things. Could you just give us a ballpark figure as in what will be your run rate in this annual employee expenses every year?

Dr. Santosh Sundararajan: So, see we do not expect to drastically increase. There are two things I want to highlight here. Our real estate team was as good as non-existent and therefore we have expanded that team and we have set a target over few more people by March. But this is all purely geared towards the huge volume of low cost housing that we are launching. Our real estate team is now growing with a specialized team focusing only on low cost housing. Huge research is going on in the markets where we want to launch the way we want to launch them and the way we want to market and sell these. So, it is best that we do all our homework and spend the money is upfront in launching it well rather than launching it as a half cooked product. So, that is where the focus and that is where a little bit of staff augmentation is a must. We have just about brought down our staff levels over the last 5 years. We are aware that we are not increasing staff quickly for no reason. We have been very cautious when we take these new staff. But that is also not the primary reason we see on the numbers, the increase in salaries, the increase in salary is coming on account of certain ESOP valuation numbers that are kicking in this quarter which will continue for the next 3-4 quarters. The ESOP that we have announced have now started, so I think this quarter and next quarter probably take 2 sets of ESOPs that come into the salary numbers.

Rohit Natrajan: And finally like from a strategic perspective like over the next 2-3 years of the timeline. How would you see this EPC business and real estate business contributing to your revenue? I mean where will be the focus be? Is it purely on the real estate; the owned and the JD model or is it going to be the EPC real estate work that you will be focusing on?

Dr. Santosh Sundararajan: So, see we have a separate team as I said that was the whole reason why we are now forming this new team headed by Mr. Rajesh, so that the focus of the old team which is including me

and downwards our entire engineering team the focus remains on EPC. Because EPC is where our strength is, EPC is something which is our first with company started as an EPC company and EPC remains our bread and butter our core area of competence. Real estate, when we say again see we are not trying to do real estate in the high end housing except the land parcels which we already have which are doing well. Real estate is again going to focus on a niche base of low cost housing in a big way. Now to answer your question the focus will be on both and who will do more only time will tell hopefully. See, the more real estate does the more EPC work that the EPC division will get from our own real estate itself which is a healthy thing. But again EPC will be independent will be focusing in the market outside Vascon as it has and EPC will grow aggressively in the short term for sure.

Rohit Natrajan: No sir, my question actually, while I do appreciate your answer. What my question is primarily with the recent developments that we have done good amount deleveraging exercises and we are continuing to do it and now with this bank guarantee another such things there in the place this EPC number actually could move up significantly from this side. So, that is what I was looking for that inflection point. When is that time going to be?

Dr. Santosh Sundararajan: So, again I am pretty sure that the next 6 months we will bag a few more orders and I am going forward next year I definitely see that our topline from the EPC will be a good at least 30%, I would not want to be projecting the numbers on a call but it would be much healthier than our topline numbers of EPC this year for sure and with that topline increase the bottom line the gross profit on EPC level would also definitely increase and on the EPC side we will see much better numbers next year than this year for sure.

Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: Sir, now it seems that we are back in actions?

Dr. Santosh Sundararajan: Very much, raring to go.

Mihir Desai: Sir, just I had a question on our status for that affordable housing order of 236 crores. I just wanted to know that what is the status and when are we going to start working on it?

Dr. Santosh Sundararajan: Work has started at site in a small way to, if you see such big projects even the government has not really cleared the entire piece of land and given all the fronts available. There are huge numbers of building these are all G+3 buildings and there are 100 buildings in a projects. So, the land is quite spread out, but having said that the project has started more than 30%-40% of the building areas have been handed over to us and we have started work at site. The target from the government is also that by December we should have everything cleared up for us. So, I think in Q4 of this year we will see even the numbers reflecting on our balance sheet. So, good amount of works will happen.

Mihir Desai: And sir just another update on our affordable housing projects, which we had announced for KATVI and Talegaon. I just wanted to check the status for that.

Dr. Santosh Sundararajan: So, KATVI is in the process of the last stage of approvals. We are expecting those approvals to come any time in this for next months and we are hoping to launch the project for sure in quarter 1 next year. We will be off course once approval there in place we will strategize exactly our dates of marketing launch and our channel partner meets and the actual launch itself. But definitely it will be in Q1 of next year for sure. Talegaon, we will subsequently after we launch KATVI and we also have to re-launch Windermere this year. Once we have done with these two activities we will then definitely take up Talegaon. Talegaon would not be in Q4 for this year but hopefully Q1 of next year.

Mihir Desai: And sir just wanted to understand that now that our credit ratings are come down. So now what is the approach of banks towards you like, do you see the inclining like do we see any positive signs of their nature changing towards us for giving the loans with you?

Dr. Santosh Sundararajan: Yes definitely. See, we have not been even today with these revised ratings from the EPC side of business we are not looking for fund base limits in facts we are brought down our fund base limits drastically it was, couple of years ago it was upward the 125 on the CC side which has already come to 73 which was something discussed with the banks the banks are happy with that. Now it is a question of augmenting our non-fund limits which is what we are discussing with the bank. They are definitely positive with our rating being improved to investment grade I think it is just a matters of small time before we solve this non-fund limit.

Mihir Desai: And sir can you discuss what are the orders in pipeline, which cities are we targeting and is it are we targeting for affordable housing or EPC more?

Dr. Santosh Sundararajan: So, from an EPC business as I said, we are targeting both I would not want to say whether we are more focused on EPC or more focused on affordable housing. We have two engines. We have a new real estate engine which is focusing independently on affordable housing. So, which will launch KATVI and then which will launch Talegaon and which will continue to launch and sell affordable housing over the next few months. On the other side the EPC side of business now with these better situation with the banks is also now aggressively looking to find more projects. So, I would not want to say which are we focusing on, we are focusing on both and the two separate engines. The best part is now we have to distinctly separate engines driving both these.

Mihir Desai: And sir just last question from my side that sir, now when we have expanded our teams in real estate, so how are the changes which we are looking on our ground level like how Vascon was before and now how Vascon is now in terms of real estate in the sense?

Dr. Santosh Sundararajan: So, I think the best person to answer that would be our new CEO on the real estate side. We obviously made some changes to our DNA. I am not losing out on any of the big strength that

the old real estate team over the 30 years accumulated. So, I will leave it to Rajesh to just give you an update on what we are doing on the real estate.

Rajesh Mhatre: See, Vascon traditionally has a very strong EPC background. The Vascon as a brand as far as today is concerned pursuit to be a premium brand. In fact, all the projects, the lay outs, if you see, Vascon is one of the best that you would see in real estate. So, the legacy which Vascon carries is very high. Going forward and therefore traditionally Vascon really never required any marketing, any branding activity as such. Most project of it was sold on launch. Obviously they were launched for those specific micro markets they were not that huge in size that would require a huge distribution number. Nevertheless, in fact it had its own sustained run of success before impacted larger projects. Now the change that has happened is we are forming a team, a distinct professional team each and every member would be specialized and in his area of expertise. So, there are various schemes which are working like an orchestra that is happening over here. So, any real estate project will go through its own life cycle of its launch, pre-sales, post sales activities and that is the change that is happening in Vascon. So, basically the advertising, the distribution part of it everything is going through a change. But it varies from project-to-project but that is basically the change that Vascon is having.

Moderator: Thank you. We take the next question from the line of Nandish Shah from Nirmal Bang. Please go ahead.

Nandish Shah: Actually my question is what is regarding, can you throw some light on GMPs performance for this quarter and what are the plans going forward?

Dr. Santosh Sundararajan: So, in GMPs the strategy as we have been saying over the last year or so. There were 2 divisions, there is a manufacturing division based out of Baddi and of course has a new factory in Mumbai as well. And there was these other division which was into BMS and intelligence systems for buildings into MEP as well. This division, the consulting division which was based out of Bombay had steadily been incurring losses had also not been able to bag profitable project. So, as a conscious call we have been scaling down that division to an extent that now it is as good as almost down to zero and the division that we have been focusing on an increasing our order intake has been the Baddi manufacturing division. So that is the clean-up that has happened in the GMP which will bear fruit over the next year or so that the division that was pulling it down has been sorted. So, in a way I think the disease has been arrested and killed what now remains is the flourishing manufacturing division. For the year the manufacturing division in first 6 months we do not have audited results but they have sort of done it 80 odd crores and they are expected to deliver at least 180 crores for the financial year this year. And the MEP division would not add much to that topline, may be 20 crores-30 crores which was already done in the first few months or very few orders of those which we are continuing to finish. So, the profitable orders remain the non-profitable orders have been killed, so I think that what happening in GMP as of now.

Nandish Shah: What kind of margins we can expect in this division, GMPs?

Dr. Santosh Sundararajan: The manufacturing division typically does about 7% to 8% EBITDA, so with a slightly higher topline maybe hopefully that will improve us slight bit, but that is what have been traditionally doing.

Nandish Shah: Another question was, any real estate plans going forward? In the territory which you are in?

Dr. Santosh Sundararajan: See, real estate plants will always be there. We have 2 engines, we always been doing real estate. But real estate we now categorized it clearly into 2 types of real estate. One is what we have traditionally been doing medium-end, high-end or sometimes extremely high-end real estate. Now those we have parcels in Kharadi, Forest County where despite the market being slow, despite all the issues in the real estate market due to the quality of our product, we have not even now had an issue and as it stands there is demand and there is no supply from our side. So, these projects we will continue to unlock and finish although we will be cautious. But on the expansion side we are not tying up new projects on the high-end 1 crores, 2 crores apartment size projects. Our focus in energies of fully diverted towards tying up low cost housing and there we have done a huge amount of research both on the technical side in terms quality of product, in terms of cost of product and we have currently huge amount of researches going on in terms of the target audience, the target customer base and how to market. So, I would say that is what happening on the real estate. Going ahead, for the next 2-3 years I think clearly our flavor is going to low cost housing. While we have already, we are in the middle of Windermere, so obviously we have to that extremely high-end housing which we have to finish. We are launching Forest County as well because that product is doing well and we have land parcel there, so to keep the momentum going we will be launching building by building over there and getting that going as well. But otherwise we do not have much of high-end housing that we are focusing on it will be low cost housing.

Moderator: Thank you. The next question is from the line of Akshay Badjate from Rubicon Capital. Please go ahead.

Akshay Badjate: Sir, we have mentioned that we have the capability to execute about 8 million square feet per annum. Could you tell us how much is our current order book in terms of square feet and this is executable over what time frame?

Dr. Santosh Sundararajan: We can talk in square feet or Rupees, I think I will translate 8 million square feet would translate to about 1,000 to 1,200 crores of EPC which we are capable of executing in a single year with the current senior management bandwidth and the assets that we have. Now in terms of order book 720 technically, theoretically should be done in 18 months even if it stretches for 24 months it is only 350 crores that we have from third party EPC. But at the same time, we will be launching a low-cost housing projects are KATVI will give, actually an order book of about 100 crores to the EPC division if we may structure it that way. Our Talegaon launch will be an order book of 300 crores-400 crores to the EPC division. So and these projects are also targeted to be launched and sold fast and constructed within a period of 24 months. So, construction capabilities of 1,000 crores will still be our factory that is being under-utilized

over the next year for sure. But hopefully in year after that, that is FY20 hopefully we will scale up to be utilizing this 1,000 crores capacity that we have.

Akshay Badjate: Exclusively on the third party side or combine?

Dr. Santosh Sundararajan: Well the construction capability is nothing to do with third party, when I say 1,000 crores when we can execute 8 million square feet or do 1,000 crores of construction it is for whoever it can be for our own project, it can be for someone else. That is the capacity that we have. Of course, beyond that if we have to scale up beyond that it is not a difficult task we just need a little bit of augmentation of assets, a little bit of CAPEX and little bit of new staff that we might have to take at the senior level but up to 1,000 crores we do not even need CAPEX.

Akshay Badjate: So, basically what I am trying to do is understand what is our average capacity utilization as of today for FY17 if I mean or H1 of FY18 in terms of square feet how has that be really executed?

Dr. Santosh Sundararajan: I think we are only operating at about 30%-35% of our capacity of construction, so square feet wise you could say 35% of 8 million if we say 8 million is our capacity we only done about, for the year 2.5 million, 3 million will get done this year.

Akshay Badjate: And in terms of our fixed cost, if I take Rs. 100 of cost which am reporting in the P&L today, how much of that is really fixed? Sir, I am trying to calculate what is the operating leverage over here when I go from 30% to let's say 100%?

Dr. Santosh Sundararajan: So, unfortunately because we have 2 engines. There is little bit of appropriation of cost that we need to randomly to study and do at the top. See, when I say cost, we are not carrying fixed cost of project level salaries that we would need to execute these projects. So, obviously if 300 cores topline in construction has to become 400 crores, at the project level, at site level, we already need augmentation of staff. So, it is not that we are carrying those fixed cost a long. Those are project-to-project basis. The fixed cost that we are carrying is very senior level bandwidth the accounts, senior staff at the head office level who could manage or oversee more projects than they are currently doing. So, but I really do not know how to put a number to your question.

Akshay Badjate: So, the other question I had over the last 2 quarters the EBITDA margins that actually come under pressure. So is the barring the increase in employee cost which is explained has been led by accounting for ESOP, is still does not explain the entire picture, I am just trying to understand what is the point of checks we have over here?

Dr. Santosh Sundararajan: The EBITDA, I think has come down by a percentage or 2 is from what I mentioned in the call. So, I do not think it is a sustained reason. Some of these what happens is AS 7 accounting standards, the slight revisions sometimes the project that is coming towards the completion a slight revision in its profitability at the end has a cumulative effect in that quarter which gets

reflected in that quarter. So, I think it is just one of those accounting functionally or operationally I do not see any reason why the EBITDA has decreased from last year.

Akshay Badjate: So, my next question is basically the Shapoorji order which we assume that this work has been subcontracted to us?

Dr. Santosh Sundararajan: Yes, so this work is subcontracted to us, yes.

Akshay Badjate: So, if I may ask you, what are the economics of these orders and are there any more chances of getting more orders from them?

Dr. Santosh Sundararajan: The first round of projects that the Andhra Housing Body has given was about 7,000 crores of low cost housing orders. But they have given it only to 3 big companies, I think primarily L&T, Shapoorji and Nagarjuna and these people have bagged huge amount of orders. So, we have a good relation running with Shapoorji and they were keen on off-loading a little bit small portion of their orders so that they can concentrate on the balance part. We on our end also saw some benefits in terms of guarantee viewer, obviously struggling for guarantee limit to bid directly with the government. So, we obviously saw some benefits in taking it as a sub-contract where the pressure on our non-fund limits is much lower. So that is the reason we took it obviously if you take it directly the margins you could expect would be higher I would not deny that. But we fairly confident that even with we will get a decent margins within what we have taken.

Akshay Badjate: So, the other question I has been our best effort we have not been really able to move on the non-core asset sales front, over the last 1 year-2 years. So what is the road block over here? Is it just bad investor sentiment or are there issues with respect pricing, where you think that with over the next 3 months now the difference between the buyer and seller is actually come down and we actually hope you get.

Rajesh Mhatre: See, basically as Santosh initially had briefed, we have a huge list of non-core assets, greater than 200 crores, which is easily quantifiable except for investment in GMP. Now if this non-core assets if you were to categories, now all these non-core assets are of different categories. They are into small real estate residential units, small commercial units, large commercial units, we have a hotel, we have land parcels. So, what happens is each and every land parcels, each and every of this asset has its own set of nuances. In fact, also as you see it was in different categories of assets. So what we have, we have basically categorized assets into easy assets and difficult assets and for this particular financial year we have kept the target of liquidating 100 crores. We have liquidated more than 50 crores of this non-core assets and we are confident that we should be in a position to liquidate the entire asset portfolio in the next 2 years. What difference we have done in the approach each and every asset that we have identified we have put a strategic action plan or team which is completely focused towards it. So that each and every asset which with proper attention and proper strategy. And just to give you an example if you have few assets lying in a particular building which you have executed

may be 3 years or 4 years hence you do not have a side office over there, you do not have any advertisement that you do for procuring leads, nobody is working on those leads and making a sustained effort in selling those particular assets. Now this is that has happened for each and every assets we are targeting and we are ensuring that we will be liquidating those assets.

Akshay Badjate: So, the other thing is we have generated about 75 crores of cash flow in the first half as per your presentation. So out of this I feel that 50 crores is on account of asset sales and 25 crores we have generated through the business, am I right in ensuring that?

Dr. Santosh Sundararajan: I think, we need to check those numbers and come back.

Akshay Badjate: Trying to understand 75 crores is what we have generated yet our debt has not come down by a big margin. So how do we really see our debt levels falling? How we basically going to use the cash which we are getting now for expansion of business, so the debt should remain at the current levels on a steady state basis. The only thing that may happen is that our cost of fund may come down.

Dr. Santosh Sundararajan: So see, this one reason for debt which will remain in the short term is Windermere, where we took the strategic call that we will drawdown and finish and start delivering those apartments which have been stuck for a while. And that project obviously is not selling the way we hope it would sell given the current market scenario. So, while the overall CC level debt and other debt have been coming down, we are parallelly then drawing down a little bit of debt on Windermere to finish that project. That will also, the drawdown of that debt will also stop by January by when we intent to finish that project and from there on. So I think next year we will see any further sale on non-core assets and cash flows from business will directly go to reduction at the gross debt levels.

Akshay Badjate: So you need to say that once we start delivering from January this year, we will recognize revenues in the P&L as well?

Dr. Santosh Sundararajan: So again, recognition of revenue depends on how much we are able to sell in Windermere. What we have currently focusing on is completing construction of the residential block which means of course you will get revenue by pure virtue of percentage of completion on the sale that have already been made those revenues will come in the next 2 quarters in the books. But again, in January we intent to once it is ready to showcase. So we getting it done very aggressively now, there is no point hanging around. It might be a product which is not fit for today's market but then I think we are in the best location, we are delivering the best quality product over there and I think we need to get it up and running show the product is ready to occupy and kill those fears in the consumers mind. And then we will be doing good re-launch somewhere in January where hopefully we will sell a few, if we sell definitely all of that will directly contribute to the balance sheet because the percentage completion would be over. So, all of that would be as good as inventory. The more we sell definitely we will see those numbers on our books.

Akshay Badjate: So, is there a chance of us recognizing any losses in account of this long overlong project once we start selling and recognizing the revenue over here. Because I assume there will be a mismatch between realizations and obviously the cost which has wrapped up over the last 4 year-5 years on account of this project.

Dr. Santosh Sundararajan: No, I mean see only time will tell. We do not intent to sell at level that we will be incurring losses and all we definitely the product is fantastic. The product deserves a price which you are not able to command simply because we have delayed it and because people are not seeing the end product ready. So, I think once we have got that in place we will definitely command the price that it deserves and if you get that kind of price and we will only see profit. And I think Rajesh will add to that.

Rajesh Mhatre: See just to answer your question, see there is not a huge carrying cost for this particular project. It was not that traditionally also Vascon borrow hugely for this particular project. The debt level was hardly 30 crores-33 crores, which only now we have increased because the other plan is to complete that particular project, so that you have this luxury project with OC so that there is no past history associated with that. The end consumer who ever comes he sees it and then he buys it or he does not buy it. So therefore and it being a premium project it has its margin. So, to answer your question that once we start selling whether any losses could be recognized on this I do not foresee that scenario.

Moderator: Thank you. The next question is from the line of Rohit Natrajan from IDBI Capital. Please go ahead.

Rohit Natrajan: Sir, I just missed out in. Is there any L1 in the pipeline that we have L1 orders in the EPC segment?

Dr. Santosh Sundararajan: No, we would not know that. So if it is L1 then the order would in places where it is transparent and online bidding through the government the moment your L1 then you are already awarded the job. So, it would not happen that your L1 and it is still in pipeline. Whereas, on the private side we would not know where we are L1 in general. So I do not think I can answer you how much of it is L1. But in the pipeline when we say we are negotiating on 1,000 crores of orders these are orders we have paid and we are talking to the client. We would not know the exact status till the award decision is made by the client.

Rohit Natrajan: So just to touch upon that point sir, this 1,000 crores have been in the bidding pipeline is that what you are saying?

Dr. Santosh Sundararajan: That is right.

Rohit Natrajan: And what typically is the strike rate right sir in the history that we have seen? Conversion of that pipeline into orders.

Dr. Santosh Sundararajan: See this, 1,000 crores is already at the second stage of discussion. So here the probability should be higher. But in general to answer your question it is less than 10%.

Rohit Natrajan: And sir, the final question is who is this JV partner in this? Thane that land bank we have of 145 acres?

Dr. Santosh Sundararajan: He is a HNI based out Bombay only.

Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: Sir, I just wanted to ask you from your micro level that how do we see the industry from 5 years now or something like that. Because you are into industry, so you would be the right person to guide us.

Dr. Santosh Sundararajan: I think that question is little bit out of syllabus. But ...

Mihir Desai: Just to check the macros of the industry that is it.

Dr. Santosh Sundararajan: So I think these trends continue to change. I will tell you if you ask me from a medium to long term, we are even bullish that high end real estate will be back with the bang because the country only continues to grow. The supply of high-end real estate in our country compared to most advanced countries even today is very low and so as growth happens in any sector and the aspiration to own better homes and better office spaces will come and so if you ask me in a 5 year horizon I would dare say that high-end real estate will be back with the bang and so that is why it is an expertise we have in-house.

So it is a division which we are just putting to temporary sleep. We are not shutting any such divisions within our company because we are pretty sure that over a 5 year period things keep changing. But the current flavor definitely is low cost housing and we are focusing there in a big way. That is for the real estate. EPC, any kind of building is welcome and lot of buildings are definitely going to get constructed in the country, so EPC will just continue to grow. There is no, whether it is low cost, high cost, office spaces, government buildings, I think there are lot of infrastructure is yet to be constructed in the country for sure. So, EPC will grow irrespective.

Mihir Desai: And sir lastly, if you do not mind can you give some guidance for FY18?

Dr. Santosh Sundararajan: I think I would not want to speculate on numbers. But I think we will be able to predict over the next quarter.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Dr. Santosh Sundararajan for his closing comments.



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Dr. Santosh Sundararajan: I thank everyone for participating and we will see you all again next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Vascon Engineers Limited that conclude today's conference. Thank you for joining us and you may now disconnect your lines, thank you.