



“Vascon Engineers Limited Q4 FY-18  
Results Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Vascon Engineers Limited Q4 FY18 Earnings Conference Call. As a remainder 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 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 Sundararajan – CEO of Vascon Engineers Limited. Thank you and over to you Dr. Santosh.

**Dr. Santosh Sundararajan:** Thank you, good morning everyone. It is a pleasure welcoming you all at the earnings conference call for the annual results of FY 2018 of Vascon Engineers Limited, one of the leading construction and engineering companies in India. Joining me on this call is Mr. Rajesh Mhatre – CEO of our Real Estate Division, Mr. D. Santhanam – CFO and Stellar Investor Relations our advisors for investor relations.

The financial results and investor presentation for FY 18 have been uploaded on the exchanges and I believe everyone would have gone through the same. At the onset of FY 2018, the company had set a few milestones and with the able help of all the stakeholders and employees we were enthusiastic about our success. As discussed during the previous few earning calls, we made sincere efforts to reinvent the company and shifted our focus to our core businesses that is engineering, procurement and construction and real estate development. As we embark ourselves on a new financial year, I would like to apprise everyone about our journey during the last FY 18.

We witnessed soft order intake prior to FY 2018 due to various financial constraints and also our decisions to pick and choose orders where we were certain of the funding commitment and safety of the threshold margins. Moving ahead with the same strategy of being selective in bidding, we had targeted a third-party EPC order intake of around Rs. 500 crores in FY 18 and I'm happy to say that the company achieved the third-party EPC order intake of Rs. 660 crores since Q1 FY 18. The orders are also from reputed developers like APTIDCO, Godrej and from various government institutions. Adding to this, the EPC arm also received an internal order intake from our real estate launches worth Rs. 190 crores. With this, our total EPC order book as on date is Rs. 1066 crores. We expect that with the execution of new orders, there will be improvement in capacity utilization and growth in revenue, leading to better operating margins going forward.

We had identified few projects to be launched during the year and feel delighted to share that we achieved the desired results on our real estate side as well. The company successfully launched and fully sold Phase-2 of Platinum Square, an ultramodern luxury boutique office project in September of 2017 and Forest Edge, a residential project of 80 units in January 2018. We also, re-launched our prestigious luxury residential project Windermere in March 2018. Under the able supervision of Rajesh and the dynamic real estate team we were able to

liquidate full inventory in the few days of the launch of Platinum Square and Forest Edge. Our strategy is to liquidate significant inventory at the launch which will generate positive cash flows from the beginning of the project. We are getting a very good response at the re-launch of our Windermere project as well.

We had always highlighted about our focus on affordable housing opportunities going forward. We have prepared comprehensive strategies to approach the affordable housing sector in EPC as well as real estate. In our EPC segment, we are focusing on large high-value civil contract offered by the government as well as some reputed private developers. In real estate, we are focusing on providing low cost value housing project targeting a customer segment who are self-employed and low salaried personnel with the fast-moving product mix of 1 room-kitchen, 1 BHK and compact 2 BHK apartments. We were successful to mark our entry in this space in both our segments, EPC and real estate. We received an EPC order of around Rs. 236 crores in affordable housing space in Andhra Pradesh. In real estate, we have launched our first ever value housing project in Katvi Talegaon under the brand of Vascon Goodlife. This project is at our ownership land with the potential developable area of 0.45 million square feet

Efforts taken towards improving the financial health, we are continuously making sincere efforts to improve our ratings and optimizing costs across all business segments. During this year we received a stable credit rating of SMERA BBB- for the company's long-term fund-based facilities and a SMERA A3 for the company's short-term non-fund based facilities. This will help us in enhancing our working capital limits, and effectively reduce our interest costs. With regards to our strategy of moving out of the loss-making services divisions in our subsidiary GMP Technical Solutions, we were able to exit this division for consideration of Rs. 18 crores.

With regard to cash flow generation from identified non-core assets, we have consciously continuously looked into liquidating the non-core assets and used the proceeds for the growth of our EPC and real estate divisions. Our efforts towards cash flow generation during the FY18 helped us to generate around Rs. 75 crores. This has helped us in repaying high interest-bearing debts and the working capital for our ongoing projects. Even currently, we are continuing with our efforts of monetizing the rest of the identified assets like our stake in hotel properties and various commercial and residential assets that we hold.

Moving towards improving marketing function of the real estate segment we focused on strengthening our current team across functions with industry leaders to reap the large opportunities available in front of us. The company this year strengthened its real estate team under the leadership of Mr. Rajesh Mhatre – our Chief Executive Officer with a clear focus on the real estate business. We also appointed separate heads for sales, marketing and CRM functions. We enhanced our real estate team to 60 professionals from a team of only 7 a year ago.

Let me reiterate that these are very exciting and dynamic times for the company and as an organization with a legacy of over 3 decades and an experience that encompasses hundreds of projects in the commercial, industrial and residential space, we are moving towards newer and bigger milestones.

Moving to the financial performance. Before presenting the consolidated financial results for FY 18, I will share the EPC and real estate business performance in brief for FY 18. Please note that as an accounting practice currently internal orders of EPC form a part of real estate which gets bifurcated accordingly. During FY 18 EPC business recorded a revenue of Rs. 315 crores with an EBITDA of around 18%. In real estate, the company recorded revenues of Rs. 119 crores. On consolidated basis, after the eliminations during FY 18, the company reported a total income of Rs. 579 crores as against Rs. 554 crores in FY 17. EBITDA for FY 18 was Rs. 45 crores as compared to Rs. 51 crores for the previous year. Profit after tax was Rs. 4.6 crores as against Rs. 1.2 crores in the previous year. Company did new sale booking of almost 2.5 lakh square feet amounting to a total sale value of Rs. 197 crores in FY 18 against new sale bookings of only 1 lakh square feet for consideration value of Rs. 60 crores for the full FY 17.

With this we can now open the floor for question and answers. Thank you very much.

**Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Akshay Badjate from Rubicon Capital. Please go ahead.

**Akshay Badjate:** Yeah hi, thanks for taking my question. I had a query with respect to your high fixed cost structures so currently as you have pointed out in your presentation you are operating at about 40% capacity utilization. But as I see our fixed costs are pretty high, with respect to the top line today. So what are we going to do to try and bring down our cost structures a little bit lower. I understand we have invested in building up real estate team off late, and the results will come through in a couple of quarters, but how do we really see margins moving from where they are today to stay for 4 to 6 quarters on the line?

**Dr. Santosh Sundararajan:** Yeah hi Akshay, see, we have been bringing down our costs for the last 3 years, in last 3-4 year we have been bringing down our overheads, our salary cost, our admin cost, our rentals all of this, these are years of consolidation, where we have taken conscious calls our top line was reducing, our overheads were also being curtailed step-by-step, strict calls were being taken within the company to bring in discipline in all these costs. Now going forward, you would see that this is the first year where our top line has reversed, the trend of reduction has turned around in standalone, we have had a significantly higher top line than the last year in standalone and going forward with the order book that we have in hand, both third party and internal Rs. 1066 crores and we are not even talking of few other new orders which are almost at the last stage of negotiation. Even Rs. 1066 crores, all of these orders are not more than 18-24 months max in terms of the period of execution. So theoretically speaking EPC alone should be finishing Rs. 1066 crores in 2 years, fair enough, there are slippages normally so

even if you provide whatever caution you want to in terms of slippages. We are definitely looking at a significant growth in the top line FY 19 compared to FY 18. So, I think more than focusing on further reductions of our overheads, we are now looking at growth going forward, the years of consolidation are just behind us and I think the years ahead are definitely years of growth, and if we grow, these overheads are not going to grow at the rate at which the top line is going to grow so definitely the operating margins will look much better.

**Akshay Badjate:**

Understood, my other question is on our share count base so I understand that we have awarded ESOP to the key employees so what is the maximum dilutions you can expect over the next 2 years and how much of that would be passed through the P&L, and what will be the financial impact?

**Dr. Santosh Sundararajan:** So I think it is a very valid, a very good question. I am glad you asked this question because if you analyze our P&L, there is Rs. 14 crores that we have taken as a direct impact on the profit, which is actually a non-cash entry. We have awarded ESOPs to the employees only at the market price. We have not awarded ESOPs to the employees at a discount. However, the A7 and the option pricing methods that are supposed to be used; the Black and Scholl's model, unfortunately, in spite of awarding ESOPs at market price, we been having to take a P&L, non-cash hit; there is no cash flow to this, but that is reflecting on our P&L and our profits are looking lower because of that. Logically speaking Rs. 14 crores of profit should have been higher, if this entry wasn't there. But we can't do anything about the rule that are laid out to recognize these. To answer your question about what kind of dilution we can expect, I think we have Rs. 1.6 crores shares over the next 4 years or options that the employees are holding, that over the next 4 years, so Rs. 40 lakhs every year. How much of these, if the market price remains higher than the ESOP price of Rs. 28, then I am pretty sure that the employees would exercise their option. So, I guess we could look at that as a potential dilution over the next 4 years.

**Akshay Badjate:**

Understood and that would be the corresponding impact on the P&L as well. So Rs. 28....

**Dr. Santosh Sundararajan:** No so the impact on the P&L is not to do with, unfortunately, the impact on the P&L is based on the options we've already awarded. Even if they are not vested, if they have not been exercised the impact is already coming on the P&L, this year, although these options haven't vested. And to answer your question, this year we have taken Rs. 14 crores going forward over the next 3 years, this value will reduce drastically. I think with the value that we still further have to recognize is another about Rs. 14 crores which will come over the next 3 years. So, unfortunately, the model is such that in the first year when the options have been awarded for 4 years, and in the first year the impact on the balance sheet or on P&L is the highest, and then it, further drops and will continue to drop as we go forward. We still have only about Rs. 14 crores left, which will be recognized over the next 3 years.

**Akshay Badjate:** Okay right, I have one more question with respect to the relaunch of Windermere and Katvi low-cost housing projects which we have launched. Could you talk about how the sales momentum is over here have we sold down any units? Have the collections have began? If you could throw some light on that.

**Dr. Santosh Sundararajan:** So we relaunched Windermere in March 2018 what we essentially did was, we have completed one, complete building Phase-1 of the project to a stage of occupancy and then we relaunched it so that the customers are now ready to see that the project is ready and the keys are available if they really want to move in. That has created a loss of buzz in the market. People are now very positive; we are having a lot of walk-ins. We have actually closed about close to 10 deals post March in Windermere which is actually significant movement I would say, the other building the Phase-1 or rather Phase-2 the other tower will also get completed in August and once the completion certificate comes, see, given today's scenario where the GST is applicable pre-completion, and these are significantly high-priced apartments so the GST value itself goes to Rs. 1 crores or (+) Rs. 1 crores. So when we are very close to completion, it is quite, but obvious that the customer is not going to book your apartment till you have completed and got the occupation certificate in hand because then the GST disappears. So we have done that already for tower 2 and for tower 1 we will be reaching that stage in August end. So, then those sales will also pick up in that tower. It has been promising despite the market and despite the ticket size I think we are quite happy that we are making progress there.

**Akshay Badjate:** Great, that is very heartening to hear. Right, if you could also just talk a little bit more about Katvi, where it is located and what edge do we have over other people, the number of units which we have launched in the market and how many bookings have the we done in the past couple of weeks since launch?

**Dr. Santosh Sundararajan:** So we have only launched this a couple of days ago, to be honest the launch was on Sunday. So this project in Katvi which is in Talegaon which is very close to the old Mumbai-Pune highway, it is very close to the Pune Cricket Stadium or the end of the expressway when you come from Mumbai to Pune. This is also very close to MIDC, there is a huge industrial park over there with big factories like JCB, General Motors as well and this is a land we own of about 9 acres and this project will be launched in 3 phases. We have launched Phase-1, which comprises of 500 odd apartments. In totality, this entire 9 acres we will have 1140 apartments comprising of 1 room-kitchen, 1 BHKs and 2 BHKs. The ticket size, so we came up with an extensive marketing campaign, we also took this opportunity for the first time to create a brand called Vascon Goodlife which will be the brand we will use for this sector going forward. We also came up with a lot of effort in terms of, we came up with a one price promise to the customers, so we have had a bracket, we had a price range of Rs. 27.7 lakhs for the 2 bedroom, Rs. 21.4 lakhs for the 1 bedroom and about Rs. 13.6 lakhs for the 1 room-kitchen and these prices were marketed as clearly all inclusive, including stamp duty, including registration, including everything, not a single rupee more and I think that created a lot of clarity to the customers. They were very happy to note that there are no stars and the plus-plus by the time

they come to the site. So all I can say is over the last 2 days, we launched on Sunday we were there the whole day, it was extremely exciting, excellent response, huge crowd coming in, huge number of intends to buy, huge number of forms being filled. We will definitely come back to you very shortly about the exact status of these 500 apartments and how many we have managed to close. I wouldn't want to give a number yet, because it is too early to talk about a number because we just launched it the day before, we haven't even accumulated the numbers yet. But we will come back to you, maybe next week with the exact status of this launch and the number of bookings, we have received in Phase-1 and immediately then we will decide our strategy to launch Phase-2 and Phase-3 of this project.

**Moderator:** Thank you. The next question is from the line of Subramaniyam Yadav from Shubhkam Ventures. Please go ahead.

**Subramaniyam Yadav:** Sir, what are the presales that we are targeting for FY 19?

**Dr. Santosh Sundararajan:** Sorry?

**Subramaniyam Yadav:** Pre-sales, what we did Rs. 1 97 crores in FY 18, right? So what are we targeting in FY 19?

**Dr. Santosh Sundararajan:** Yeah so I will let Rajesh answer that.

**Rajesh Mhatre:** Last year, in fact we did real estate sales worth Rs. 200 crores. This year in fact we can easily expect 40-50% rise in the same for the coming financial year.

**Subramaniyam Yadav:** Around Rs. 300 crores we can expect right?

**Rajesh Mhatre:** Easily yeah.

**Subramaniyam Yadav:** Rs. 300 crores, and out of this, how much would be Katvi tentatively if you can guide us?

**Rajesh Mhatre:** Well value of sales in Katvi is close to Rs. 190 crores, okay?

**Subramaniyam Yadav:** Okay the total for 500 apartments?

**Rajesh Mhatre:** It is for 1140 apartments and considering the kind of response we are getting I think we should be in a position to achieve most of it.

**Subramaniyam Yadav:** So you're targeting to sell 500 apartments, right in Katvi is Phase-1?

**Rajesh Mhatre:** Phase-1 it is 500.

**Subramaniyam Yadav:** Okay so will you be launching all the phase together or you are launching only Phase-1?

- Rajesh Mhatre:** Currently we have launched Phase-1. But considering the kind of response, Phase-2 will be opened immediately. In 3 we will need to load TDR, so actually, we will need to give some gap. Though the kind of response we are getting, ideally in fact, if the project if we add the entire project approved, it would have been much easier. But there will be a regulatory timeframe of getting the approvals done again the RERA numbers for that phase. But this year that would be done.
- Subramaniyam Yadav:** Okay, Rs. 190 crores from Katvi and remaining Rs.110 crores is from which project? Windermere would be how much?
- Rajesh Mhatre:** See Windermere we can expect close to Rs. 100 crores. If we go in details in fact, the sales will be much more, because what happens is we have Forest County 4, 3 towers which are coming. So that would be close to Rs. 80 crores worth of 3 towers so which is at 24 so Rs. 240 worth crores of inventory in sorry Rs. 150 crores worth of inventory in these 3 towers of Forest County, that is there are couple of buildings in Tulips, Phase-3 which is one of our projects in Coimbatore which was stuck quite a while in the environmental clearance. So that would again be Rs. 100-Rs. 125 crores so this is a clear-cut visibility in terms of what we have and we can easily launch and will be in a position to achieve.
- Subramaniyam Yadav:** Then the target would be more than Rs. 300 crores at this stage?
- Rajesh Mhatre:** Yeah, the target is definitely more than Rs. 300 crores. Conservatively what we can achieve we have told you, Rs. 300 crores.
- Subramaniyam Yadav:** And can you give us some working on the Windermere, how much is the unsold inventory as of now and the debt on the book on Windermere?
- Rajesh Mhatre:** 38 units are unsold out of the total units in the Windermere. And in addition to these 38 units we will be having 4 bungalows.
- Subramaniyam Yadav:** 4 bungalows right, yeah. So, what is the value of this tentatively?
- Rajesh Mhatre:** Tentatively the balance value.....
- Dr. Santosh Sundararajan:** Would be about Rs. 350 crores for the non-bungalows, 350 + 100 about Rs. 450- Rs. 460 crores is the unsold value.
- Subramaniyam Yadav:** 350 + 100 crores?
- Dr. Santosh Sundararajan:** Yeah, of course, 45% of that top line comes to us, 55% goes to the landowner. 45% of Rs. 450 crores are still revenues or sales that would accrue to us.
- Subramaniyam Yadav:** Okay, 45% and debt is how much, the Edelweiss debt is there, how much is the value?



- Rajesh Mhatre:** Fully drawn down, Rs. 95 crores is the Edelweiss debt.
- Moderator:** Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.
- Mangesh Bhadang:** I just wanted to have some more clarity on the Thane project, when do you expect it to launch and just some idea on the land that we have or of the JD or the JV arrangement that we have there?
- Rajesh Mhatre:** Basically, Thane land is in subsidiary where we hold 45% Vascon and balance is held by another partner. As far as strategy going forward for this particular land in fact just recently this area got changed. In the DP this area has been classified into affordable housing, which is great news for us. We have actually in the process of doing a detailed evaluation for example; super imposing our land exactly according to the DP and accordingly we are lining up strategies as to how to bring this land to the market. As we see in fact focusing on this particular land parcel but actually if you want to see any material realization from this land, we are at least 2 years away from....
- Mangesh Bhadang:** Okay so the reason there would be a 2-year delay is because you would wait for the market to develop, or probably you will need some approval which will take some time?
- Rajesh Mhatre:** It depends only on 2 things; A) obviously, as you said which is approval market, absolutely we don't worry about market. We know the product is good; the day may come in this particular market everybody will know what we can do with that particular land parcel. So market we are not worried at all. What kind of product....
- Mangesh Bhadang:** Are there any ballpark number you can share in terms of what could be the total number of flat as well as the total value that you can probably look at in this?
- Rajesh Mhatre:** Total value, say, for 147 acre even at 2 FSI it should be roughly 50 million square feet so assume a price of 5000 x Rs. 7500
- Moderator:** Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.
- Mihir Desai:** sir it seemed that we are achieving what we are saying, so it is building up a good confidence amongst the investors and hope that we continue doing this, sir?
- Dr. Santosh Sundararajan:** We definitely will.
- Mihir Desai:** So sir, just on a broadly basis on the financials I need to ask you that the current margins, which we have achieved in FY 18 are these margins sustainable?

**Dr. Santosh Sundararajan:** So I think for clarity purpose, we have split our balance sheet purely from a purely from an analysis point of view into real estate, EPC and GMP separately. So I hope you have referred to that segment wise profit and loss chart. Now on that, the EPC is showing the numbers in terms of percentage of EBITDA and percentages of EBIT which we hope will remain intact unless something drastic happens these kind of percentages, I think are a good reflection of the kind of order book we are having and the kind of work we are doing. So this should remain and the top line should go up in the coming year. When it comes to real estate quite obviously, it is not that the real estate is operating at a loss, EBIT there are couple of anomalies that are creeping into this analysis. One is that, in Windermere we are still recognizing the old agreement that we have registered and those are registered at much lower rates and therefore incremental sale in Windermere is currently showing a loss which will reverse as we do new sales at the higher rates. So that would change and also this quarter we had to do road in our Nasik project to finally get the completion certificate. This was something which was not anticipated by us and the government forced us to do something so on account of that we incurred a loss of close to Rs. 3 odd crores which is also coming into our real estate so-called segment wise P&L, and therefore you would see that the real estate is not showing a positive EBIT. But quite clearly the value of sales has increased from Rs. 60 crores in FY 17 to Rs. 200 crores in FY 18 and we are looking at minimum, as Rajesh pointed out minimum Rs. 300 crores it looks like in FY 19 and in real estate what happens is while sales happen on the ground, the revenue gets recognized in a postponed manner because we have to wait for certain percentage completion and then we have to wait for completion of sales. So as we go ahead, revenue is always lopsided towards the latter stage of the, revenue recognition is lopsided towards the latter stage of the project. So while the employee cost and the overheads are not going to increase, I think this Rs. 119 crores of revenue in real estate will definitely go up significantly and so we will definitely see an increase in margins in real estate. So this real estate wise segment P&L is definitely not a reflection of the way it will look going forward. It will improve for sure. EPC, I think is a fair reflection; top line of EPC should increase.

**Mihir Desai:** Okay and sir just wanted a sense regarding the industry like on floor sir you are there in the business everyday so if you can give some highlights on how you feel the industry is going and how it will shape up in the next 2-3 years?

**Dr. Santosh Sundararajan:** So I think we are seeing improvement, we are quite bullish. See today what is happening is I think most real estate players have seen the so-called bad days where sales dropped, and they were stuck with inventory. Now whoever launching a project in this market I think in the RERA regime and having just seen the lower velocity of sales in the recent past, whoever is launching a project currently I think is pretty much doing it with his eyes open, he is not doing it waiting for some future blessings in terms of sales to happen. So he is pretty sure. He has tied up his financials and he is being conservative on his sales target. So I think it is a good sign for both EPC as well, because whoever is launching a project on this market pretty much has his funding in place to fund a significant part of the construction and that is a good sign for us as a contractor. Also, from our real estate angle I think we are also very clear where the

demand is, how much demand we can expect in each segment whether it is Windermere, whether it is Forest County or whether it is the low cost Katvi I think we are now recently done a launch in all the 3 sectors and we are pretty clear on what kind of demand, we can expect in a city like Pune, in all of these sectors. So going forward we will plan our launches according to that.

**Mihir Desai:** And sir any sense on FY 19 order book which we can get from you?

**Dr. Santosh Sundararajan:** So FY 19, as I said, see we are setting ourselves third-party EPC order intake target of about Rs. 700 crores in this financial year. I think we will achieve that, we are already at an advanced stage of negotiation in EPC for at least Rs. 300 odd crores of work and this is only the first quarter. So I think we should be in a position to achieve Rs. 700 crores of order intake this year.

**Mihir Desai:** And also execution would not be a problem for us, right?

**Dr. Santosh Sundararajan:** Execution is last year we would say we were at around 40% capacity utilization, this year hopefully that will scale up to about 60-70. So I think next year, the challenge of execution will only come couple of years ahead whereby we will have to look at CAPEX increase and we will have to look at staff increase and those things when they have touched about Rs. 1000 crores as a standalone number, when we are reaching around Rs. (+800) crores as a standalone number that is when there will be a real challenge in terms of augmenting our capacities of execution. Till then I think the execution is hardly something that gives us any worries.

**Mihir Desai:** And sir just a follow up on the debt, are we still pursuing like regularly we are pursuing for the improvement in credit rating, right sir?

**Dr. Santosh Sundararajan:** Yes we are. See we got our BBB- from SMERA this year. We have been very good in terms of compliance in the last 12 months also so going forward we will keep reapplying and seeing if we can get our ratings improved.

**Mihir Desai:** Okay sure sir, and sir last question for Rajesh sir, now going for this affordable housing and new real estate launches, what is our strategy for marketing these projects?

**Rajesh Mhatre:** See basically, in fact we have, as part of our strategy first, we established Goodlife as a brand which is separate from Vascon as a brand because Vascon always stood for premium in the market and obviously we didn't want to enter this particular segment and have any impact on the overall brand because we have projects like Windermere also which are being executed. So simultaneously to have an affordable housing brand, it was necessary. So we have actually created a value housing brand not typically an affordable housing brand, the kind of product in fact that we are providing as part of this value housing brand is definitely much better in terms of the overall lay out in terms of amenities, there are lot of new things which we are trying,

Santosh explained. So we are trying to create this more on the FMCG lines, so therefore, there is a one price promise, you choose any apartment, any floor there is a single price, no nothing extra, no documentation, no legal charges, no view premium, no parking. Everything is bundled up into one particular price, whatever government taxes. So that much clarity is there to the customer, even while sourcing we are not even advertising this as the price starts from whatever, directly each of our advertisement clearly mentions what is the price so what you see is what you get. We're trying to change some industry benchmarks over here. We want basically to create a benchmark in terms of the product that we have promised and product that will deliver so clearly we can differentiate ourselves from the entire market. What we believe that once Goodlife as a brand is clearly marketed and acceptable to everyone, later on the incremental of marketing efforts on that particular brand will be minimal because what we are looking at is a standardized product. So when we say Goodlife then it would mean something, okay. So, it will mean something in terms of product, it will mean something in terms of amenities and everything would be standardized across all the projects so only the location would change. So presently we are doing Goodlife Katvi or tomorrow we would launch in the other corner of Pune which is say Goodlife Whagoli, maybe Goodlife Undri which is on the other side of Pune. So people would know exactly what we are coming up with, what we are bringing in and there will be absolute clarity also on the pricing. So, going forward we will see a lot of traction for this kind of thing. It is something new that we are trying out and at least the initial response that we're getting it is extremely encouraging and this would be a benchmark for the industry going forward.

**Dr. Santosh Sundararajan:** Add to Rajesh, I would just say just purely based on the marketing campaign over the last 2 weeks we have already started receiving huge interest from landowners for JV parcel in the peripheries of Pune. So hopefully we will be in a position to tie up a couple of good parcels shortly where we can then plan to launch the next Goodlife project.

**Moderator:** Thank you. The next question is from the line of Viral Shah from Emkay Global. Please go ahead.

**Viral Shah:** On the EPC front what makes us confident, because last 2 years we didn't talk about order inflow, we have been talking about it this is the first year when we have seen actually order book increasing. So going forward, what makes us confident that Rs. 700 crores of order inflow is possible for FY 19?

**Dr. Santosh Sundararajan:** So 2 things; actually the kind of orders that are coming have also improved. Very honestly, we were also waiting for good orders to come up, today with RERA in place, as I said today a good amount of builders who haven't launched projects for a while are also now getting their act together and launching some projects. So we are seeing that good orders are coming from the private sector as well and the government after all these years if it has taken them 2-3 years to push all the nodal agencies, to push all the local governments to come up with these housing projects that they have been talking about for so long, so those are also coming. So we are

seeing that lot of orders are coming also our qualifications have improved. Our last 3 years will now be in profit or as it stands now currently for last 3 years we are in profit. We didn't have that scenario that was curtailing our capacity to book orders on the government side as well. So things are improving also our relation with the bank, our banking limits while we have not yet secured new bank guarantee limits, at least the old limits have opened up. Few of our old bank guarantees have come back from our old projects so we have a little bit of margin within the existing limits with the banks and the banks are now happily letting us use those. We have got down on our margin requirements with the bank from 30 to 20 and hopefully we will get that further down this year. So I think small improvements but steady improvements on all fronts is leading to this confidence that now we can book orders.

**Viral Shah:** Okay, fair enough sir. When you were speaking about government orders, which regions or states are you looking at bagging some orders or pickup and ordering happening?

**Dr. Santosh Sundararajan:** Yeah, so very honestly speaking we are, EPC has always been a nomadic business, we go wherever our clients take us, where ever the project takes us as long as there is a Rs. (+100) crores order currently in any city in India we are quite happy to go there and set base. Normally it doesn't affect our margins too much to operate geographically in different cities across India; we are already there in so many cities in India. Yet if it is a Rs. 20-Rs.30-Rs.40 crores order obviously we wouldn't be going to a new city. As long as it is more than Rs. 100 crores and which most of these orders we target are above Rs. 100 crores going to a new city is not a challenge. So wherever we see a good opportunity we are ready to go. We are not there in east of India currently so maybe we would need probably a bigger order to push us to go there, but otherwise in north, south and west of India we are there in most locations. So there is no specific city, wherever we find a good order coming up we are happy to actually go from the EPC angle.

**Viral Shah:** Got it, secondly sir, one of the presentations says that there is a relaunch at Windermere, so what exactly has changed as compared to current plan versus what was earlier?

**Dr. Santosh Sundararajan:** So actually, Windermere went into a kind of a tailspin, a negative vicious cycle where we were not completing and then the customers were losing or the potential customers were losing confidence on the timelines of completion. In Vascon's history of 30 odd years we realize now Windermere is the only project where we have had struggle to sort of keep our promise of timely delivery, all other projects we have always delivered on time. Now Windermere was going into that cycle where the customer was losing confidence whether Vascon will deliver, when will they finish it? And therefore, sales were not happening and because sales are not happening we were not expending money and pushing the construction, I think for 2-3 years we were waiting for sales and sales was waiting for construction. So eventually I think we have sort of figured that we have no choice but to instill investor confidence by borrowing some money and finishing the project. So that is exactly what we did, we drew down further on Edelweiss debt, we increased our draw down from about Rs. 50 crores to about Rs. 90

crores, Rs. 40 crores of extra draw down happened over the and we finished Windermere, we brought the Phase-1 of Windermere to completion, got the occupation certificate, got it up and running ready to occupy and occupancies has started happening. So now that changes the scenario altogether today as I who comes into the project sees that it is ready and all those doubts of when will it finish are all gone. So now it is only a question of what facilities are being provided and what is the price.

**Viral Shah:** Okay, fair enough sir just to understand it further. What is the percentage of revenue which can be recognized further from this project because the construction is complete, right? And I believe 70% of place has been sold as well right?

**Dr. Santosh Sundararajan:** That is right, not 70% I think we have about close to 60% sales done on the 2 residential towers, 35-40% to go. But to answer your question in terms of revenue, we still have sales of about Rs. 450 crores to be done, including 4 bungalows which are there in the project. So Rs. 450 crores' 45% so about Rs. 200 crores would be our share of future sales that has to come into the book plus maybe about Rs. 40-Rs. 50 crores of the old sale that is not yet come into the books. So that is what would be the...

**Viral Shah:** And in that case the outflow would be Rs. (+100) crores or no?

**Dr. Santosh Sundararajan:** Setting the bungalows aside for the 2 residential towers that we are in place we still need about Rs. 30 crores of money to be expended to totally finish, but you would also appreciate that out of this, only I think about Rs. 10-Rs. 12 crores is towards common expenses, the balance would be interiors in the house of the customers. So if a house doesn't sell we would not be spending those money because these customers typically have their own choices of the kind of interiors that they want. So we would only be completing it to a shell and then waiting for sales and once the customer is in place, we would do the interiors the way he wants. So that expenditure will come only after sales. Currently, we need to spend about Rs. 10-Rs. 15 crores to finish the common areas on tower 1.

**Viral Shah:** Fair enough sir, lastly you just mentioned about the bungalows, so earlier I believe the plan did not include bungalows right? And now you have shifted that concept to bungalow. Is that understanding correct or something has changed there?

**Dr. Santosh Sundararajan:** That is correct.

**Viral Shah:** So I think commercial then, still you are going with commercial space there or it has been replaced by bungalows there?

**Dr. Santosh Sundararajan:** Commercial tower which we had originally planned has been replaced by 4 bungalows.

**Viral Shah:** Four bungalows and has the marketing on pre-launch been started for that or still....?

**Dr. Santosh Sundararajan:** No we have not yet done anything for the bungalows actually, the drawing, the planning has been done in, the architectural planning we have put in the plans for approval also. And then hopefully we will sell 1 bungalow, get that up, ready and then show that as a showcase and then market the other 3.

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

**Akshay Badjate:** I actually had a question on GMP, actually, what is the status on the residual business which is still a part of our operations?

**Dr. Santosh Sundararajan:** So see in GMP this year we took that very strategic call of cutting off the MEP division or the services division which was actually year by year, accumulating more and more of the losses. The manufacturing division based out of Baddi and a factory in Bhiwandi has been doing well and has been having a very good EBITDA. But the Mumbai division was pulling that down. So we thought of, sold off as much as we could of the Mumbai division and we also, that is why you would also see this year a loss in GMP because we had some provisioning which we wanted to kill on account of this Mumbai division operations so that also, we have taken. Now going forward, we essentially have only one division which is the Baddi based manufacturing division and that division is doing well. Also, you would see that the top line of GMP reduced this year compared to last year, which is a good sign for us because the top line reduction was on account of reduction in the services division and not on account of reduction in the manufacturing division. Now going forward the manufacturing division will grow and that is a good sign because that is a profitable business. Now that division also received an excellent order from Tata whereby Tata is making Tata branded steel doors and the manufacturing has been entirely outsourced to GMP, that order we would see at least about close to Rs. 30-Rs. 40 crores on a conservative side of it coming in this year and going forward, it will be significant at least Rs. 100 crores every year is what it looks like in terms of their expression of the kind of demand they foresee. So I think that is a good development on the manufacturing side of GMP. So, going forward I think GMP's top line would also increase and their margins would also stabilize because we have sort of identified and cut off these services division.

**Akshay Badjate:** Understood, so is it safe to assume that the gross profit margins which we have disclosed in this segment which is at about 34% is something which is sustainable or is there like a one-off in that as well?

**Dr. Santosh Sundararajan:** No so in GMP you are saying?

**Akshay Badjate:** Yes.

**Dr. Santosh Sundararajan:** No in GMP it should be more. In fact, the EBITDA in GMP, see next year, GMP's results should definitely be again much better than what you are seeing this year. So, in terms of the

gross profit margin at 34% see what happens over there is salary cost are significant percentage of their cost or their top line. So that comes below the line and therefore you see 34% but I would say, even if you go down to EBITDA, which is currently being seen as 6 or 7 that should go upwards of 10-12.

**Akshay Badjate:** Understood, okay right so my next question is on basically the debt levels. What is the net debt level as of today and what is the interest-bearing portion out of that, and our average cost of funds?

**Dr. Santosh Sundararajan:** I think our gross debt is Rs. 270 crores so net debt would be about Rs. 250 crores that is, I think consolidated level. At standalone, Vascon we have about Rs. 237 crores gross which comprises of Rs. 58 crores of zero coupon. So if you take away Rs. 58 crores from Rs. 238, so that brings us to Rs. 180 crores would be interest-bearing debt. The average cost of interest on this is coming to about 13-13.5%. Our interest costs have come down because of our rating improvement and negotiations with SBI; I think our cost of interest on our CC has come down significantly this year. But, however, since we drew down about Rs. 30-Rs. 40 crores from Edelweiss to finish Windermere, so which was at a slightly higher cost. So the average cost of interest has not come down as much as we would have liked, but it has still come down compared to last year significantly.

**Akshay Badjate:** Correct, so what is the roadmap for releasing our debt going forward and actually given the fact that now we are scaling up our real estate division would we actually see debt increasing further?

**Dr. Santosh Sundararajan:** So see ideally we do not want any kind of long term debt increasing so we look at our debt in one; is our CC limit with SBI, which is at around Rs. 70 crores which I think we are quite comfortable with, although EPC will be growing, and our growth will be significant in the next 2 year, we do not see a need to increase our CC limits with the bank to fund our operations. So hopefully that will remain stagnant. On the Edelweiss debt definitely is on high priority to bring that down we would also be looking at options to sort of raise slightly low-cost debt and replace that in the coming years. Also definitely with Windermere sales happening we will bring that debt down in totality instead of replacing it with low cost we will also target to bring it down itself by paying back. So that is one target for the year, where we will hopefully bring down this Edelweiss Rs. 90 crores significantly by end of next year. In terms of your other question about real estate growing and needing funds, see most of these projects yes, we do need certain funds to buy a JV, launch the project, get the approval. So there is definitely real estate would need cash flows to launch project, but our strategy of low-cost being they liquidate most of our project in the first few days of launch itself. So, I would look at any kind of borrowing has a very short-term borrowing to sort of launch the project and then within a few days of launch we should be able to, we're not going to be borrowing long-term to sort of tie up huge JVs, or buy land or any such thing. So we won't have long term borrowings on real estate as well.



**Akshay Badjate:** Alright, understood. And my last question sir is on the Thane land parcel. While I realize it is early days still, but we would have really thought about it right? And given that this is a significantly large land parcel internally, how are we thinking about it? Are we looking to develop this completely by ourselves or are we looking to strategically tie up with a stronger partner in Mumbai? Or we are trying to bring aboard may be a strategic investor like what we tried doing last year? So what is your thought process on that?

**Dr. Santosh Sundararajan:** So see Thane is a goldmine, there is no doubt we are sitting on our share of 75 acres of land in Thane, it is now getting classified as low-cost housing and we have already launched our Goodlife in low-cost housing. So definitely going forward somewhere hopefully faster the better of course is going to be a goldmine that opens for us. Currently there is first the financial constraint in terms of we need to invest a little bit more funds to accumulate a contiguous set of land, since that we hold higher, need a little bit more of land accumulation to make it a totally contiguous huge parcel. So while we say 75 acres they are in I think broken pieces. We still do have single piece of may be 15-20 acres. But again, getting the access to it we need to acquire some land to ensure we have write access to all these parcels. So, it is a different project altogether where we need concentration, we need some funds. To answer your question of whether we will do it on our own, whether they will tie up with someone, see we are a developer ourselves, we have a low-cost brand if it is an ideal location for low-cost so definitely, we will go ahead and do our Goodlife brand on it one day. How we will, before reaching that stage though we would probably need someone else who could come in and buy some other parcels and then we swap parcels or various options are possible. Currently it is a financial constraint, more than anything else.

**Moderator:** Thank you very much. That was the last question in queue. As there are no further questions, I would now like to hand the conference over to Dr. Santosh Sundararajan for closing comments.

**Dr. Santosh Sundararajan:** Yeah, Thank you all for your participation, wish you a great day. Please connect to Stellar IR Advisors for any further queries that you may have, and I will see you again next quarter. Thank you.

**Moderator:** Thank you very much. On behalf of Vascon Engineers Limited, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.