



“Vascon Engineers Limited
Q2 & H1 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Vascon Engineers Limited Q2 & H1 FY2019 earnings conference call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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!

Santosh Sundararajan: Thank you. Good evening everyone. I welcome you all to the earnings conference call of Vascon Engineers for the quarter ending September 30, 2018. Joining me on this call is Mr. Rajesh Mhatre, our CEO of Real Estate, Mr. Santhanam, CFO and Mr. M. Krishnamurthy, Chief Corporate Affairs and Stellar Investor Relations, our advisors for investor relations. We have uploaded the financial results and result presentation on the stock exchanges and on company’s website and I believe you all must have got a chance to go through the same. Before I share with you developments and financial performances of the company, on behalf of Vascon Engineers I wish everyone present on this call a very Happy and Prosperous Diwali.

Moving on to the performance of the company, at our EPC vertical as on September 30, 2018, we have a total order book of Rs.930 Crores of which the external order book is Rs.763 Crores, the internal order book from our real estate launches is Rs.167 Crores. Similar to the last financial year 2018, we are targeting external orders worth Rs.500 Crores during the current financial year. We have till date already received external orders worth Rs.226 Crores and are confident to achieve the desired target. We are witnessing good traction in the EPC order inflow and believe that with the execution of new orders there will be improvement in capacity utilization and revenue leading to better operating margins.

On the real estate division, we have made important progress in terms of sales and execution of the projects we have launched recently. We have launched two towers at our prominent residential project Forest County in Kharadi and we have sold 53,346 square feet for a total sale value of Rs.58 Crores. Our earlier launched projects at Forest County in different phases had garnered significant response and we expect this launch also to get a similar response.

We amongst one of the eminent real estate developers in Pune, our end-to-end capabilities and the development quality have helped us in creating our brand equity, thus providing us an edge over other developers. In H1 FY2019, the company did new sale booking of 2.5 lakhs square feet amounting to a total sales value of Rs.136 Crores, against sales booking of 2.5 lakhs square feet for a total sales value of Rs.197 Crores in the entire FY2018.

Let me take you through the financial performance. We have reported the standalone financial results of Q2 and H1 FY2019 and we have adopted Indian Accounting Standard 115 from Q1 FY2019 effectively from April 1, 2018. Please note that there has been no impact on our EPC business, which continues to be accounted on the progressive method. The comparative period

has not been restated and hence Q2 and H1 FY2019 figures are not comparable with the previous period figures.

During H1 FY2019, the company reported a total income of Rs.1,800 million as per Ind-AS 115. Without the effect of Ind-AS 115, the total income was Rs.1,890 million as against Rs 1,430 million in the same period H1 FY2018. EBITDA for H1 FY2019 was at Rs.140 million with profit after tax at Rs.3.6 million in H1 FY2019. With this we can now open the floor for question and answer. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Ritvik Seth from Deep Finance. Please go ahead.

Ritvik Seth: I have just two questions from my side. Firstly, how is the divestment bucket looking like and what is the progress on that?

Santosh Sundararajan: What is your second question as well, so we will answer it together?

Ritvik Seth: Yes. My question is regarding the GMP subsidiary about the Tata Steel order, what is the progress, what is the status and the economics, have we started manufacturing for them?

Santosh Sundararajan: See with regards to the divestment in fact we have hold most of the units now, which were available for divestments for real estate. We have just entered into a deal for sell off of the Kaledonia commercial office space based in Mumbai, the deal has not yet been concluded, that is one development that has happened on divestments. The second question, Tata Steel order in fact we have procured the machineries for the Tata Steel order and production should start anytime by the end of December.

The trial production has already begun and we expect to book at least roughly Rs.30 Crores of revenue for this financial year from the same order.

Ritvik Seth: Sir in FY2020, what kind of revenue are we looking to build on that?

Santosh Sundararajan: Roughly, the revenue forecast from this particular Tata order we are looking close to Rs.100 Crores a year.

Ritvik Seth: So that is over three years and there was a thought process selling off GMP Technicals also, so where are we on that and can you elaborate on that?

Santosh Sundararajan: See the process for selling off GMP Technicals is on, to stabilize the company with this Tata order the company is also getting stabilized, for improvement in margins once this Tata order is just fully on, parallely we are looking for suitors as soon as in fact there is some crystallize thing we will be announcing at the requisite time.

- Ritvik Seth:** That is it from my side. Happy Diwali Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.
- Pankaj Kumar:** My question pertains to the real estate segment where we have incurred losses, there is no sale happened in this quarter, basically from the Windermere project or have we sold off any inventory in the quarter or any improvement in the near term?
- Santosh Sundararajan:** See for this quarter we were in a position to sell only one unit in Windermere.
- Pankaj Kumar:** Sir if I look at your real estate sales in Q1 you have reported Rs.164 Crores of sales and if I look at your Q2 number in H1 altogether we have sold Rs.136 Crores, so was there any cancellation or anything that happened that the total sales number is lower than what you are reporting to us?
- Santosh Sundararajan:** Yes, you are right, we recorded cancellations in Vascon GoodLife, which was the affordable housing project that we do, so in that particular segment there were significant amount of customers, loans obviously could not be processed by the housing finance companies, again slow down in the housing finance sector also has added to the same, so the respective cancellations whatever happened we have booked and we have revised those numbers and accordingly the numbers are low.
- Pankaj Kumar:** So how is the position in GoodLife as of now, what is the total unit that we have launched and how much is sale as of now?
- Santosh Sundararajan:** See roughly 300 units have sold, roughly the value of those will be close to Rs.60 odd Crores in Vascon GoodLife.
- Pankaj Kumar:** And what is the unsold inventory?
- Santosh Sundararajan:** Total units in phase 1 were close to 500.
- Pankaj Kumar:** So in this kind of scenario how do you see this affordable housing segment particularly for you going ahead in the next six months to 12 months, what kind of targets that you have for the launches and how do you see it going ahead?
- Santosh Sundararajan:** So basically there is a rethink on the strategy of approaching the segment altogether, initially the NBFCs were very active and very supporting as far as you know the segment was considered. Now we will have to look with a combination of lot of public sector banks also, who would be supporting us in the entire process and the banks are not as aggressive as the NBFCs as far as these schemes, the companies or customers own contribution requirement is concerned. So keeping all these things in mind in fact we are restrategizing as to the next sales push as to how

we should be giving it, essentially it will not be scheme based as normally it used to be, so yes there will be a rethink on how to approach this kind of segment.

Pankaj Kumar: What is your target for real estate particularly if you leave aside affordable housing asset and how are we looking at in the segment in our Kharadi project, what kind of launches that we are expecting and what kind of sales that you are targeting in the current year as well as next year?

Santosh Sundararajan: See in the current year, we had initially forecasted a target of Rs.300 Crores in spite all these problems in real estate, in fact we should be in a position to achieve that target. Initially when we had given the target we had given it on conservative side, but yes we will be in a position to achieve the target.

Pankaj Kumar: For FY2019 year Sir?

Santosh Sundararajan: Yes for FY2019.

Pankaj Kumar: What are the launch pipelines?

Santosh Sundararajan: As far as the launch pipeline is concerned, immediately, we have Forest County, two towers, which is currently under progress. It's a Rs.110 Crore launch. We will have Forest Edge, which is a single building of roughly around Rs.60 Crores of sales value that may come in the last quarter of this particular financial year and we would also be launching Coimbatore, which is roughly 3 lakhs square feet, which would happen in the last quarter of this financial year, so this is the launch.

Pankaj Kumar: And what is the value of that Sir?

Santosh Sundararajan: 3 lakhs square feet roughly Rs.200 Crores will be the value of that.

Pankaj Kumar: If I look at compared to Q1 presentation to Q2 in Windermere also the unsold inventory has increased, so whether there were any cancellations in the Windermere as well?

Santosh Sundararajan: We will get back to you why that has happened because there has been no cancellation in the Windermere, there has only been one new fresh booking, but no cancellation, we will have to check our numbers.

Pankaj Kumar: I will check it. Thank you.

Moderator: Thank you. The next question is from the line of Nandish Shah from Nirmal Bang Securities. Please go ahead.

Nandish Shah: Thank you for the opportunity. Sir can you throw some light regarding the real estate market due to this NBFC funding issues?

Santosh Sundararajan: I think Rajesh had just mentioned definitely that is affecting the market, our low cost housing launch, which was very successful, we reported higher numbers of sales in last quarter, we are revising our numbers not because the demand does not exist, the customers who booked with us, even now are very keen on getting their apartment, but they are not able to secure for themselves finance from the HFCs or from the banks, so we already seeing the effect of it at the low cost housing segment, I think in four months we will definitely see the effect of it throughout the sector even at the high end housing as well as at the corporate level.

Nandish Shah: Sir my second question is, are there any plans to demerge your EPC and the real estate division into a different entity?

Santosh Sundararajan: I think this question keeps coming up internally as well as from outside, we will think about it, there is no concrete plan as of now, but we will evaluate the pros and cons of such a scenario going forward.

Nandish Shah: Sure. Thank you. I am done with my questions.

Moderator: Thank you. The next question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.

Rohit Natarajan: Thank you for letting me to ask questions. I just had a few questions, one is in the last call you said that excluding Windermere you had the non-core bucket of close to Rs.150 Crores, which is like a low hanging fruit and that could be monetized, is there any progress that we have made on that, I am talking about the Aurangabad land, Kaledonia and the Goa hotel stake?

Santosh Sundararajan: We have really not managed to sell any of these bigger assets as Rajesh mentioned all the so called low hanging fruits to do with smaller apartments and unsold inventories in completed projects all of that we have attached and we have almost completed all of those sales, but these bigger ticket items, four or five of them, which contributes to a larger chunk of this assets that we want to sell, we have not made progress to report on any of these.

Rohit Natarajan So essentially where I am coming from is that, we say that you are working at close to 40% capacity utilization, we would want to see some bigger number over there because you currently are executing a three million square feet per annum when you have the ability to do eight million square feet, so I am trying to understand, may be with the monetization of these non-core items you can focus more on your core work so that is where I am trying to figure out?

Santosh Sundararajan: You are 100% right. That is exactly the strategy we had outlined for ourselves even a year ago and we are working on it, so you are absolutely right, this is not that we do not want to do it, it is not that we are not working on it, enquiries are out in the market, we are trying our best to get these assets out, generate some cash flows and focus on increasing our EPC revenues, you spot on that we are only working at 40%, we should be doing much more topline and a little bit of

capital inclusion internally would help us get better bank guarantee limits and help us grow on the EPC side. We are working on it, it should happen soon than later.

Rohit Natarajan Sir what is the sticking point actually is it a subdued market, is it some systemic reason that is stopping this company to perform at its core level?

Santosh Sundararajan: For the company to perform as I said you have to look at both the divisions EPC and real estate. For EPC to perform it is a little bit of non-fund limits and growth capital that is very marginal amount of growth capital that is needed to kick start this process, why these assets are not going, yes it is a subdued market we have had enquiries, we have had discussions, but at the end I think a little bit of sticky assets, which are not really getting sold. We are still working on it. Hopefully we will have news on at least one of the assets as Rajesh mentioned in the next quarter.

Rohit Natarajan Yes. In the earlier questions, you hinted that you are actually launching Coimbatore if I am not mistaken, so if I understand it correctly may be is it the good time to launch even the Madurai because you hinted in the previous call if I am not mistaken, the approvals were there in the final state and what is the status over there?

Santosh Sundararajan: Yes, we are working on Madurai as well that is also in our launch calendar. I think Rajesh did not mention it because I am not sure we will be able to handle. Madurai is going to be a much bigger launch than Coimbatore, so as of now it looks like Coimbatore, we will proceed Madurai on our launch calendar, so we probably do Coimbatore in the last quarter of this financial year and Madurai hopefully in the first quarter of next financial year. Clear on track we are putting the plans for approval, the approval process might take three to four months, but then again after that we will need two to three months of speeding up the launch.

Rohit Natarajan That is it from my side. Should there be any other questions I will get back into the queue.

Moderator: Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking my question again. The debt size what are we are doing to reduce plethora of land apart from this non-core asset is one thing unlike you are talking about some refinancing of the old loans, any progress on that direction?

Santosh Sundararajan: So we are working on it, again the NBFC market as you know stands where it stands today, so we are working on it again the next quarter hopefully we will be able to solve that.

Pankaj Kumar: In Windermere we were targeting some 90- 100 crores, in this market what are the raised target what we are looking?

Santosh Sundararajan: Sales target or refinancing target.

Pankaj Kumar: Sales target in the beginning of the year you were talking some Rs.90 to Rs.100 Crores from Windermere project.

Santosh Sundararajan: That is right. The Windermere has two towers, one of the towers we got our OC about six months ago, the other tower we are expecting the OC hopefully next month, currently there are no sales we are able to close on the tower, which does not have an OC, so once that OC comes next month even that inventory will open up, we do have some soft enquiries there, which we can then push and try to convert, but having said that six months have gone by, so whether we will be able to achieve our Rs.100 Crores target for the year, it looks a bit difficult, but we have the inventory in hand, so we will work, one OC is there, one more portions what we can achieve for the year.

Pankaj Kumar: What is your ticket size in the second tower?

Santosh Sundararajan: The tower that was going to get the OC has duplex apartments of about 8,000 odd square feet, the ticket size almost goes to Rs.15 Crores. We only have about 12 to 13 of them unsold, each one of them worth Rs.15 odd Crores even if we make progress on two or three sales we will have a significant topline booking.

Pankaj Kumar: On this EPC side this year we are targeting 500 Crores of order inflow and how we are looking next year?

Santosh Sundararajan: Hopefully next year we should be setting ourselves a slightly higher target of order booking, there is a constraint, the only constraint EPC is facing in terms of order booking is our non-fund banking support, the entire banking industry seems to be quite worried about taking exposures to the EPC sector in general, so although our Balance Sheet has only improved over the last two years the banks are still a little bit skeptical on lending and I think this non-fund limit is something, which the banking sector is totally relooking into the exposure they want to take on the non-fund side, so that is creating a little bit of temporary hassle for us, but I think this will ease out over the next few months, next year we should definitely be setting up higher target of EPC order book.

Pankaj Kumar: Based on current mentioned limit what is that we can get target?

Santosh Sundararajan: Currently with the existing free limits we do not have much, so we can still book about Rs.500 Crores of order with the existing unutilized limits, but we would need fresh limits to grow beyond that.

Pankaj Kumar: And any guidance that you are using for current and next year or EPC segment particularly?

Santosh Sundararajan: In terms of revenue, I think the two quarter results are out, normally in our field the second quarter is the worst quarter because it is severely affected by rain, so normally Q3 plus Q4 in all the previous years has done better than Q1 and Q2 thus expecting to double our revenue and do a

bit more than that should not be unrealistic expectation for the next two quarters if things go well, so we are talking of more than Rs.350 Crores for the year, which was only Rs.250 Crores for last year, so I think there has been a good growth in that sense on topline of EPC. For next year, as I said it all depends on the amount of order booking the capacity we can double of this without sweating, the problem is an order booking and the problem in order booking as I said is pretty much in our bank guarantee limits, so as that puzzle get solved a bit, but we will book more order and then we can deliver more next year.

Pankaj Kumar: And how do you see margins in the current year in this segment?

Santosh Sundararajan: That was the current order that we are executing and not run into any major delays or cost overruns, inflation has also been pretty much on the materials and labour front that the risks that we carry and so if margins have been intact whatever we have estimated from day 1 so most of these projects we have taken a gross profits in the range of 12% to 15% and it has pretty much been achieved on these projects so far.

Pankaj Kumar: Thank you.

Moderator: Thank you. Next question is from the line of Nitin R from Kap Stocks. Please go ahead.

Nitin R: What is the total unsold finished inventory we hold on our book?

Santosh Sundararajan: So unsold inventory is primarily there in Windermere, in Windermere we have inventory almost close to Rs.250 to Rs.300 Crores. I think of unsold inventory in both the towers put together, but that is the only project where we have significant unsold inventory, otherwise the other launch in Forest County, which Rajesh mentioned about happened just a few weeks ago, couple of weeks ago, so there we have already sold about 40%-50% out of Rs.110, Rs.120 Crores worth of inventory we have managed to sell almost Rs.58 Crores, so the balance Rs.60 Crores is moving well, so hopefully that will get sold off fast, so otherwise in most of our projects where we have smaller unsold inventory we worked on it and got it sold, so nothing much remains except Windermere.

Nitin R: Sir this Rs.300 Crores is including the JDA or is it just our part?

Santosh Sundararajan: No it is not our part, it is the total inventory 45% would be our share.

Nitin R: Sir in last quarter you have said that our total inventory at Windermere was about Rs.250 Crores, so has it actually come down or I believe there have been some cancellations?

Santosh Sundararajan: No there is no cancellation in Windermere so I gave you ballpark number of Rs.300 Crores, inventory would remain almost the same. We only sold one apartment this quarter, so it would be remaining in the same range.

- Nitin R:** Presentation actually shows different picture I believe anyway I will follow up with you.
- Santosh Sundararajan:** We will check the numbers and get back to you, the numbers are not tallying, but this quarter we have not sold much in Windermere, we have sold only about one apartment.
- Nitin R:** Sir, you said in last quarter presentation actually Rs.205 Crores we sold in Windermere, sold value is Rs.212 Crores, but this quarter it appears to be Rs.187 Crores?
- Santosh Sundararajan:** We will check our numbers and get back to you if we have made any errors.
- Nitin R:** Thank you.
- Moderator:** Gaurav Arora please proceed with your question, your line has been unmuted.
- Gaurav Arora:** Sir my first question would be on the long term debt so we have reduced our long term debts, so can you please throw some light on it?
- Santosh Sundararajan:** Yes, what we look at is our medium term debt, actually long term debt hopefully I would like to say we do not want any long term debt, medium term debt would be the CC limit with SBI that we are carrying, which is funded limit of about Rs.73 Crores and the other big debt that we are carrying is the Windermere debt close to Rs. 100 Crores, 95 Crores from Edelweiss. These are the only two major debts and Rs.95 Crores one is specifically linked to Windermere hopefully as the inventory sells off, it is almost completed, but not much more expense to be incurred on the projects where the inventory sells off is that will get repaid project specific, so that is actually a short term one. The CC limit for the next year or so, I do not think we will work on reducing the exposure in the CC limit, but subsequently yes we do plan for them try and bring that down as well.
- Gaurav Arora:** Sir just wanted a sense on the EPC businesses, so what is your sense on the ground level and also order intake on this quarter was not that good, so for this year end what is your outlook of the industry?
- Santosh Sundararajan:** EPC is looking promising both the government sector and private sector both have stabilized, so today the good part about EPC is the project that are getting floated in the market definitely seem to have your funding tied up whether it is government or private. With RERA coming in the private sector also looks now promising because any projects that is registered in RERA operates through the escrow account so that is actually a very big plus for EPC players. In more ways than one the government is now ensuring that we get paid on time, which used to be the only primary risk with exposure to the private sector a few years ago. So I would say it looks very promising as real estate now grows and launches more projects, there will be a lot of EPC work there are already quite a few enquiries. As I said stumbling blocks to our growth is I would not blame the market, the market is there, we just need to sort out a few things internally, which I have been

talking over the last two quarters, that will happen you know, BG limits and a little bit of cash flows internally, which we have worked on and we are only making progress on it, we are getting better, as I said sometimes you know SBI did assess us for a bank limit, but unfortunately the banking scenario also now in the last few months has been not so bullish, so they also not so keen to take exposure. I think this will sort out over the next couple of quarters hopefully all this uncertainty in the market will also ease and will secure our limits and grow on the EPC front. We are very bullish, have no issues on the EPC front in terms of legacy from the past, our Balance Sheet is clean, our assets are still lying idle, our staff is all geared up, we are working at only 40% utilization and we have also touchwood being lucky over the last three years at least where the projects we are executing have not gone into any sort of problem in terms of stoppage at site or in terms of liquidity crisis with our clients, thereby our gross profits, as I said inflation has also been under control so our gross profits have been achieved. So we have a bit more topline, this will be really good numbers that we can see, so I hope it is just around the corner.

Gaurav Arora: What is the component of other income in EPC business?

Santosh Sundararajan: We do have some margin money blocked with the banks to get our limits so interest on that is part of that component, also we got some refunds on tax, which was tax free funds, which have then come back with interest, so I think some of that interest got recognized, then there was some excess provisioning in GMP, which was returned back, so a part of that came, so I think a mixture of a few components, but it is in our presentation it is about Rs.8 Crores in that segment wise presentation we gave, it should not be so much, it will probably be lesser in the next quarter, something abnormal would have come this quarter.

Gaurav Arora: Sir any updates on the Thane land?

Santosh Sundararajan: No, nothing really, nothing worth discussing.

Gaurav Arora: Question to Rajesh Sir, what could be our collections from GoodLife?

Rajesh Mhatre: For the current financial year we are targeting, considering our sales target we had targeted collection close to Rs.60 odd Crores in fact considering the present sales also we should be in a position to collect Rs.40 Crores from GoodLife excluding uses that we do, that is up to March this year, but in the next year we should liquidate that inventory and make the collection.

Gaurav Arora: By next year?

Rajesh Mhatre: Yes, by March 2020, clearly we should be in a position to finish off liquidating the entire inventory and almost finishing the project and collecting significant amount of what we use.

Gaurav Arora: On the cash flow generation so what would be the crucial component for cash generation for our business, what we should track?

Santosh Sundararajan: As I said there are three buckets we will classify it as EPC, real estate and non-core assets. On cash flow generation in EPC is never going to be huge at a single point of time, it trickles in month-on-month depending on the order book and the work done, so cash flow generation our focus on EPC would be that it generates positive cash flow enough to run the projects in hand and to take care of the overheads associated with those projects and to also service the CC limit with SBI, so far the last more than a year or so that has been happening, we have been able to ensure that the cash flow is coming from the EPC division are enough to take care of these three aspects. The EPC however would not be currently in a position to generate used cash flow sort of payback principle debt in either Edelweiss or SBI, for that we have kept the non-core assets as a focus point to try and sell off bigger chunks, which will be free cash flow available to pay back debt. As Rajesh said some of those smaller ticket inventories we did manage, but the bigger chunks like the Kaledonia or the Aurangabad land or the hotel in Goa, these are all still not been achieved, so when any one of these happens definitely that money would be effectively utilized will hopefully bring down our debt and the third asset is real estate, real estate again we have unsold inventory in Windermere, anytime Windermere inventory sells again a good amount of cash flow will be quickly generated within the company so that can also be used to bring down principle amounts in that.

Gaurav Arora: Regarding our JM financial loan sir, just wanted some updates on that front?

Rajesh Mhatre: We have completed all the formalities; we are expecting investment at any point of time, so that is the status of the loan.

Gaurav Arora: And the utilization would be majorly for the working capital right?

Santosh Sundararajan: No, no that is the loan to replace Edelweiss in Windermere if it gets closed.

Gaurav Arora: And what would be the percentage benefit, which we will have over there?

Santosh Sundararajan: About 3% points.

Gaurav Arora: Sure Sir. That is all from my side.

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

Santosh Sundararajan: Thank you everyone for participating. We will see you all again next quarter. Happy Diwali!!

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Vascon Engineers that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.