



“Vascon Engineers Limited Q4 FY 2021 Earnings
Conference Call”

June 01, 2021



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LIMITED



*Vascon Engineers Limited
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Moderator: Ladies and gentlemen, good day. And welcome to the Vascon Engineers Q4 FY 2021 Earnings Conference Call, hosted by Arihant Capital Markets Limited. 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 an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Shrey Gandhi from Arihant Capital Markets Limited. Thank you and over to you, sir.

Shrey Gandhi: Good day, friends. This is Shrey Gandhi, and I welcome the management of Vascon Engineers Limited for the Q4 FY 2021 results. Now, I will hand over to call to Dr. Santosh Sundararajan for his opening remarks.

Santosh Sundararajan: Thank you, Mr. Gandhi. Good morning, everyone. I welcome you all to the earnings conference call of Vascon Engineers for the quarter and year ended March 31, 2021. Joining me on the call is Mr. Rajesh Matre, CEO, Real Estate. Mr. Somnath Biswas, our CFO. I believe you would have gone through the Q4 FY 2021 financial results and the result presentation uploaded on the stock exchanges and on the company's website.

In the wake of the second wave of COVID-19, I hope you all and your families are healthy and safe. The fiscal 2021 was a challenging period for many businesses, amid bold measures by the Government of India like countrywide lockdown. However, a swift recovery was experienced during the second half on account of various measures undertaken by the government. During this period, we focused more on strengthening our balance sheet by repaying the high cost debt and deleveraging to further improve the liquidity position of the company.

We are pleased to share that during the financial year 2021, we have made a debt repayment of Rs. 41 crores. With this now, our total gross debt is at Rs. 214 crores as against Rs. 255 crore as on March 2020. Repayment is majorly made towards high interest cost bearing loans, which is reduced by Rs. 33 crores to Rs. 71 crores, as against Rs. 104 crores as on March 2020. This will aid in bringing down our overall interest cost of the company.

On the EPC front, the construction sector faced multiple headwinds, mostly in terms of labor unavailability due to COVID-19 induced disruption at the beginning of the year. Despite the challenging year, we have been able to maintain our execution momentum and efficiency, which has led to post satisfactory top-line despite the tough initial quarters. In EPC business, through our relentless focus we manage to register month on month improvement in execution levels, our execution run rate has improved from Rs. 93 crores in Q2 FY 2021 to Rs. 105 crores in Q3, and Rs. 135 crores in Q4. We are happy to report highest-ever top-line in Q4FY21, in the last 10 years. This has enabled us to cover the deficit incurred during first half of the fiscal and has aided us in delivering a top-line in line with last year. In FY 2021, our total income stood at Rs. 368 crores and recorded a slight decline of 4% year-on-year.

During this quarter, we have received two orders from UP Public Works Department worth Rs. 516 crores for establishment of new medical colleges in Bijnor and Kaushambi, UP, on a design and build lump sum basis. The execution period for the project is 18 months. With this, we have received third party EPC orders worth Rs. 584 crores during the financial year. The current total order book stands at Rs. 2,109 crores, which includes external EPC orders of Rs. 2,019 crores and internal orders of Rs. 90 crores. This forms a healthy order book of 7x FY 2021 EPC revenues.

Over the last two years, we have made conscious efforts to increase the share of government orders in our total order book. Resultant, the share of government order has improved to 85% of the total order book as compared to only 15% two years ago. This provides visibility of faster execution, while ensuring uninterrupted cash flows. The order book of the company remains robust, providing strong visibility of EPC revenue growth for the next two to three years. We have also secured a sanction of Rs. 40 crores additional BG limits from CSB this year. In the current fiscal, our focus will be on accelerating the execution of the order book, which will lead to better capacity utilization, resulting in improved margins for EPC business. We continue to adopt a cautious approach towards bidding for new projects, and as a strategy we will be focusing on orders with higher margins.

Coming to the real estate division. As the economy gradually marches towards recovery, the residential real estate sector also started witnessing positive momentum on the back of various measures taken by the government. Pune and Mumbai market registered a significant improvement in the second half of FY 2021, primarily on account of stable prices, low interest rate, reduction in stamp duty and other government SOPs. In FY 2021, we did a new sales booking of 120,613 square feet, amounting to a total sales value of Rs. 120 crores. The sales in our ongoing luxury project Windermere fared well this year, owing to reduction in stamp duty in the state, and we have registered a sale of Rs. 78 crores in FY 2021 in that project. In FY 2021, we have made a collection of Rs. 150 crores in comparison to Rs. 115 crores in FY 2020 despite of weak market condition.

In the financial year 2022, our ongoing project Forest Edge tower A and B, and Vascon Goodlife three buildings in Phase 1, will achieve completion and occupancy certificate will be issued for both the projects. Under IndAS 115, the revenue of both these projects amounting to Rs. 90 crores will be recognized in the current fiscal. And this will lead to significant improvement in the real estate business performance in FY 2022, which was under pressure as the overhead costs continued to be debited to P&L while the revenue could not be recognized due to non-receipt of OC as per IndAS 115.

On new launches front, as you all are aware, we have a robust launch pipeline for the real estate project. As per current market situation, we continue to maintain a cautious stance over new

launches. We are monitoring the market very closely and would opt for launching new projects only when the market is conducive.

On the GMP business front, in the past, we have taken a strategic call to discontinue the service division, which has led to the underperformance of GMP segment. With our resilient effort, the GMP division has achieved an EBITDA positive during the last fiscal in spite of COVID, and the same is sustained during such a challenging period. Our GMP business is faring well. In FY 2021 the revenues stood at Rs. 149 crores and the EBIT of Rs. 11 crores with a margin of 7%. At Vascon, we are focused towards sustainable improvement and achievement of marquee projects like those from Tata Group that show our ability and preparedness. We believe this margin to sustain and GMP division to further value add towards the profitability of the company.

Let me take you to the financial performance. Let me start with the standalone numbers. During Q4 FY 2021, the company reported a total income of Rs. 135 crores as against Rs. 94 crores in Q4 FY 2020, registering a growth of 43% year-on-year. EBITDA was at Rs. 8.8 crores with the margin of 6%, and a reported net profit of Rs. 1.5 crores in Q4 FY 2021. On a consolidated basis, in Q4 FY 2021, total income grew by 50% to Rs. 192 crores as against Rs. 130 crores in Q4 FY 2020. EBITDA stood at Rs. 11 crores with the margin of 6%, and profit after tax was at Rs. 3 crores for Q4 FY 2021.

We would like to reiterate that with efficient execution capabilities, we strive to maintain the momentum going forward, supported by the strong order book and strong pipeline of project launches in real estate. We continue to remain committed towards strengthening our balance sheet and focus to enhance shareholders' value. With this, we can now open the floor for questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Rohit Natrajan from Antique Stock Broking. Please go ahead.

Rohit Natrajan: Sir, my first question would be more on the order backlog that right now we have, close to Rs. 21 billion order backlog. And even if we execute it over the next two and a half to three years, we you should be in a position to do Rs. 7 billion of execution and EPC works. But I understand that we have a second wave and COVID lockdowns being more prominent. How do you see that number panning out in this fiscal? Also, if you can touch upon the raw material price hikes what we have witnessed, in fact they have hardened, how will that impact? Labor availability also you can touch upon that, and a detailed elaboration would be extremely helpful.

Santosh Sundararajan: Yes, I will take your first question on the impact of the second wave in this quarter. So, we did Rs. 135 crores in Q4, so we were scaling up, we were on the rise in terms of our top-line going up quarter-on-quarter. You are right, we do expect slight hiccup in this quarter. It will not be anywhere near as bad as it was last year, because construction sites have been operating through

this period for the last two months, labor has been available at site even if not at full capacity, the labor has been available to 70% to 80%. Labor did not return back to their hometowns this time around. Material delivery was also permitted by the government. And so even though there were delays, and there were certain inefficiencies, certain materials not reaching site on time. But all in all, there has never been complete stoppage of work and therefore construction has been going on, I would say, instead of year five but year four maybe. There has been a problem with a lot of staff, a lot of client personnel, a lot of vendor personnel falling ill. So, every time important people who are necessary to keep the site progress on, a good proportion of them were on leave, at home, recouping or in quarantine. So, definitely, we would see some inefficiencies, but I would expect that this should not affect our run rate by more than 20%, 25%, we should still be able to achieve 75% of our run rate.

There is one site, I would say, stoppage of work at Raipur, we have stalled the project for a couple of months, it is more of a political decision taken by the government. So, our Raipur project which was running at full speed, giving us more than about Rs. 10 crores a month has been stalled as of 15 days ago, so that will also affect the top-line for this quarter. We expect it to restart next quarter. But all the other projects, on the positive side, the Goa airport project has received a TC so that is starting work. Police housing project in Bombay has the got clearance to demolish the other buildings that were preventing us from going full swing, those buildings are demolished so we have all front available. MMRCL has also all fronts available and Pune housing is also going on at full pace, so in Bangalore. So, other than Raipur, all other projects have picked up speed and we seems to be receiving payments, although a bit delayed due to COVID in the last two months. So, I think the impact of the second wave will be there in the first quarter, definitely we will see a dip in top-line, we will not see this curve rising as it was over the last three quarters. But we are sure that by second quarter, third quarter and fourth quarter we will catch up and overtake this year's performance by far.

Rohit Natrajan:

Sorry to interrupt you on that, just to summarize, let us say Rs. 700 crores may not be the top-line but there will be a 25% miss. Maybe we can do at Rs. 500 odd crores kind of number in EPC business, is that reading right?

Santosh Sundararajan:

Yes, I think that would be a fair assumption to make for this year. And to answer your other questions, in terms of labor, there has not been significant labor escalations in cost. Labor availability, as I said, this quarter has not been too much of a trouble ever. Anywhere, in the period of May generally they do go back, harvest period they go back home and come back, so there is always a shortage in the period of May. So, for us, coincidentally whether it was due to second wave or due to the normal annual trip that they make back to their hometown, May generally is a shortage month in terms of labor. We are expecting that June, the labor will be back in full swing and we should not have a labor issue for the year. Raw material prices, yes, steel, cement, quite a few prices have gone up. In almost 70% of the cases we are protected by escalation clauses and we are protected by base rates in our contract. So, we are not majorly hit.

Yes, there are a couple of contracts where the escalation formula does not cover the exact impact because suddenly steel prices have gone up by 25%, 30% over the last two months, and they have not really dropped now. So, we do have an impact of these in a couple of projects where we are negotiating with the client, because the escalation formula does not cover the actual impact on ground. But at the company level, this is not significant. As I said, bulk of the cases we have our base rate in place. So, we are not affected.

- Rohit Natrajan:** So, what will be the quantum of impact, if you could quantify, that will be more helpful.
- Santosh Sundararajan:** see, the impact is in probably 15% of our top-line, and in that 15% of top-line the impact because of this would be, I mean, totally our cost increase would be to the tune of maybe 2% to 3% in those projects alone, if at all we are not able to renegotiate with the client to pay us for these price hikes in this period. So, at the company level this will be much lesser than 0.5% for the full year.
- Rohit Natrajan:** 17% gross margins that you regularly clock, maybe it may go down to 16%?
- Santosh Sundararajan:** Correct, at best.
- Rohit Natrajan:** And you will see a jump in EBITDA margins, largely because the volume of work is anyway...?
- Santosh Sundararajan:** Absolute correct.
- Rohit Natrajan:** So, any guidance that you want EBITDA margins?
- Santosh Sundararajan:** No, I think we will just raise the guidance as you said on the top-line. So, as I said, there is nothing really hampering our gross profits. With raw material price increase and a little bit of inefficiency in quarter one, as I said, over the next three quarters, we will catch up. And because we will be doing a higher top-line, the EBITDA will also be much better than last year, and gross profit should not really drop much. So, I think I will leave the guidance at that.
- Rohit Natrajan:** Sure. On GMP, what is the outlook for the next year, would we be making the same Rs. 1.5 billion kind of revenue or maybe something more than that?
- Santosh Sundararajan:** So, GMP was again targeting to do a bit more than that. Again, COVID has impacted GMP this quarter more than it has impacted Vascon, because in Vascon construction activities was allowed, work at site and most of our projects are government projects, so none of them asked us to stop work. So, things have been going fairly okay for us. But for GMP, quite a few projects have not been functioning during this last one and a half months. So, they have been impacted in first quarter. So, while we are expected to do 10%-15% more top-line this year, I think now the revised target would be to achieve same Rs. 150 crores to Rs. 160 crores next year. Because

a good thing for them is, this year more than half their order book is from overseas project. And that should help them de-risk from their exposure to COVID situation in India.

Rohit Natrajan: Sure. Finally, non-fund-based limits, I suppose you were in conversation with SBI or some of the banks to raise the limits, what happened, what is the status over there?

Santosh Sundararajan: So, we are in a decent position as far as our BG limits are concerned at this point of time. So, if you saw our March end results, you would see we had about Rs. 30 crores available limits with our existing sanctions from UBI and SBI. Further to that, in this first quarter, we have got a new sanction of Rs. 40 crores from CSB Bank. So, as it stands today, roughly about Rs. 60 crores of available BG limits are there, based on which then we do plan for this financial year to, normally you need 1/10 of the top-line that you can book, order book that you can achieve, you need 1/10 of that as BG limits. So, I think if you have a Rs. 60 crores BG limit as of now, we can look at Rs. 600 crores, Rs. 700 crore of order booking for the year, which is our target. So, that is in place.

Rohit Natrajan: Okay. And sir, if I may squeeze in one more question, in terms of order inflows what is exactly the outlook for this year? I understand we have a very strong order backlog, it is exceptionally multi-year visibility. But still in terms of inflow, is there anything that we are actively looking out?

Santosh Sundararajan: See, the bare minimum that we want to target is that we will extinguish, as you said, we will extinguish at least Rs. 500 crores of this order book that we have in hand. So, that is the bare minimum we should top up, so that end of the year our order backlog has not reduced. We will be looking to top up a bit more towards Rs. 700 crores, Rs. 750 crores, if not Rs. 1,000 crores as our booking target for the year up to March 2022. So, yes, we continue to bid and we will hope to achieve that order booking.

Rohit Natrajan: Anything that is L1, any particular order that you have in mind or is it overall view that you are looking at this point in time?

Santosh Sundararajan: See, again, last two months, most governments, state and center, have been busy grappling with COVID. So, most of the tenders that were supposed to have come up this quarter have not been put up for bid. So, this quarter has been a silent period in terms of being able to bid for projects and negotiations and all of that, we have hardly bid for any projects in April and May, and I do not think June will be any different. But once this COVID wave has settled, there are enough tenders that are supposed to be floated by various government departments. So, we track everything, we are not necessarily picking any particular one, because when you end up picking a particular one and get aggressive on that, invariably you end up compromising on your margins. So, we will be bidding for quite a few. And we will only take where we are lucky enough to get our desired margins.

- Moderator:** We will move to the next question, which is from the line of Abhishek Jain from Arihant Capital. Please go ahead.
- Abhishek Jain:** Sir, you have said there has been some impact on your top-line on the guidance which we have given for EPC business of Rs. 700 crores, but that impact is for this quarter only or that will have a long-term impact? Because from Rs. 700 crores EPC, you have now clocked about Rs. 500 crores. So, can you throw some light on the same?
- Santosh Sundararajan:** See, there are two impacts. One is only for this quarter, which is the COVID impact. I mean, we are assuming it is only for this quarter, of course, we are assuming there is no third wave, we are assuming everything will be back to full swing next quarter. So, far, it looks like our government clients have not diverted their funds which are reserved for these projects. So, we have not got any indication that there will be any funding issue. The only other issue what we are talking of a slightly lower top-line compared to what we probably guided earlier, is that Raipur has been stalled, we do not know when that Raipur project will start, we were expecting to execute almost Rs. 150 crores of work in Raipur alone this year. And that project currently stands stalled for political issues. If it starts within the next two, three months, then yes, we could relook at different guidance next quarter. As of now, we are not able to project for the year end. I think the Rs. 700 crores was for a standalone, real estate portion would also add to EPC. So, Rs. 500 crores EPC plus about Rs. 100 crores coming from real estate will take us still to Rs. 600 crores. So, it is not a revision from Rs. 700 crores to Rs. 500 crores, it is from Rs. 700 crores to Rs. 600 crores odd, is what we have. And again, these are just projections, we really do not have any mathematics to sort of be strong on these numbers. These are just guidances which might again be improved over next quarter if things go well.
- Abhishek Jain:** So, what is your outlook on real estate business?
- Santosh Sundararajan:** Real estate, two of our projects will get completion, OC. So, real estate business, there is one thing which is the real business on ground which is sales that is happening and project that are getting launched. And the other thing, which is what comes on our balance sheet, which is to do with OC and IndAS 115. So, as far as balance sheet is concerned, this year, we will get completion of Forest Edge two tower, and the first phase of Katvi Good Life project that we have been doing. So, both put together should get us Rs. 80 - Rs. 90 crores of top-line on our balance sheet this year from real estate, plus a few Windermere sales that might happen. So, real estate is set to touch Rs. 100 crores, there should not be a problem for them.
- Abhishek Jain:** Sir, Windermere, what is the current scenario, how much is left, like what kind of inventory we are expecting to be cleaned out of sales we are expecting this year?
- Santosh Sundararajan:** See, one of the biggest positive outcomes of this COVID has been a significant uptick as far as luxury units are concerned. In fact, we saw a huge Rs. 78 crore worth of luxury units that we sold in the last year. In fact, even during this COVID time we have been seeing good credible

site visits being done at the Windermere site, which is much more than any other site, which was again surprising. I believe this strong momentum will continue. We should be in a position to close definitely some deals in the current quarter too, despite COVID restrictions as far as Windermere is concerned. So, as far as the outlook is concerned, I believe we should continue with the momentum that we had got last year as far as Windermere is concerned.

Abhishek Jain: And out of the external order book of Rs. 2,019 crores, what is the time duration of execution?

Santosh Sundararajan: See, all these orders are anywhere between 24 months to 36 months. And they are all going at good pace as of now. But as I keep saying on all our calls, our experience has so far been that, see, now Raipur is stalled, a few months will go before it starts. So, putting all these unpredictable factors, it always happens that we do about 30% of our automatic order backlog, we never achieve more than that. While if you extinguish it in two years, we should be doing 50%, but it never happens. So, 30% of Rs. 2,000 crores is still Rs. 700 crores. But as I said, because of this quarter, and some of these like big Rs. 500 crores new order has just come in, it takes about six months for orders to start also. So, that is why our guideline is in that range, Rs. 500 crores to Rs. 600 crores for EPC. If we are lucky, we might do a bit more. But these things will take three years, typically three to four years to extinguish.

Abhishek Jain: On the Raipur, any receivables stuck?

Santosh Sundararajan: No, nothing. Fortunately, no receivables stuck. There is no risk at Raipur. And in fact, the project being stalled is not really going to affect our bottom-lines, or we are not under too much stress in those aspects. We have already written to the government and put in our claims also for the same for their abrupt decision. They have confirmed that they will look at it at an appropriate time, and we will get our claims also. It was purely a political call taken by them. So, we are not worried about that affecting our bottom line or having any losses because of that decision. But the run rate of top-line definitely is going to get affected.

Moderator: Thank you. Next question is from the line of Piyush Chheda from SRDD Capital. Please go ahead.

Piyush Chheda: Just wanted to understand a little more about our real estate business. Is this a focus area for us or it is sort of a legacy set of projects that we are working our way through? I mean, given that we are present in Pune and then we are present in Coimbatore, what is the thinking? What is the view on this business? Where do you want to take this business?

Santosh Sundararajan: So, see, you are right, part of it is legacy. What we have in Coimbatore and Madurai is legacy of old joint ventures that we have signed, in Coimbatore we have delivered two phases already, we have to deliver and finish the third phase. Similarly, in Madurai it is a long pending joint venture. Going forward, our strategy is not to get out of Pune for real estate. And the focus would be to execute small project, niche projects in city. And we are not looking to compete with the

Godrej's where we look at 80 acre and 100-acre huge launchers in the peripheries of city, we will leave that to the other guys. Our focus would be on small prime acres in city on joint venture basis with landowners. We will not be putting our money on land, we will be focusing on our expertise, which is design, execution, sales, marketing and brand in Pune. So, real estate would focus in that direction. Last two years, we have been very clear this is the direction for us. We have JVs that we are in talks with in Pune. And we definitely are not talking or trying to line up anything outside Pune. So, other than that, Coimbatore and Madurai, we will be focused in niche projects, profitable projects in Pune.

Piyush Chheda:

Great, that helps me a lot. Just as a thought, real estate is for better or for worse, a hugely mind and energy consuming kind of a line. So, why not just focus on EPC where you are very good, you have great capacities, the opportunity is also huge, and good real estate developers, as that industry is getting more professional, are looking for high quality EPC contractors. So, why do something that is, in some sense, a subscale and perhaps suboptimal for you?

Santosh Sundararajan:

You are absolutely right. So, I will tell you, see, it is a good question you brought up. Let me tell you, we have been reiterating this to all our shareholders over the last two, three years that we look at ourselves as an EPC company much more than a real estate company. And we have been in the EPC space, even now 70%-80% of our top-line is in the EPC, and EPC is set to grow. That is a separate engine, it is run by a separate team and there is no mingling of bandwidth between real estate and EPC. So, these are two separate topics. EPC, as you said, the market is there. You are right, there are developers with RERA and organized construction coming in, with funding of projects coming in, even the private sector is going to open up. So, far, we are proud to say we are focusing on the government sector and 80% of our order backlog is government sector. But the private sector will open up soon, good projects will come up and they will need good contractors. So, we are geared up for that, we are ready for that, we are waiting for that. So, EPC will grow, there is no compromise on EPC because of real estate.

On the real estate side, also, we have fortunately I would say not been having too much free cash flow or free capital in the last four, five years to be purchasing land or looking at real estate as a traditional real estate business where you try to accumulate land and spend money on approvals and take it step by step. So, for us, real estate is still glorified EPC. We bring to the table our expertise in design, we have an excellent brand in Pune which has been built over 30 years. And even today, you launch a project in Pune in a prime location and it is a Vascon project, the sales happen at a premium to all other builders around us. So, that part, there is no point just ignoring or forgetting that or putting it aside. So, we know what we are doing, it is glorified EPC, we are not expecting to make 50% and 100% margins like we used to a few years ago. We are only looking at our focus area, which is design, execution, construction, sales, marketing. Finance and land accumulation is something which is not our expertise, so we will have partners for those, we will be either be on a joint venture with the landowner, we will bring in finance partners

to fund the project. And so essentially, we will be a glorified EPC player, the margins will be better than doing EPC for someone else.

So, we have an excellent brand on real estate in Pune, so there is no point in just looking at it totally negative. But we know exactly what our shortcomings are, we know where that industry is, we know what we are capable of, and what we are not and so the focus. So, I would say we do not have an aggressive target on real estate that we want to achieve Rs. 500 crores and Rs. 1,000 crores next year. We go, we take projects which we like, which are good. And while the EPC will continue to have an aggression to grow, and it has always helped us to have been both sides, so real estate will continue to grow at its own pace.

Piyush Chheda: Thank you very much. And just a point worth pondering, maybe you want to convert the real estate company into a separate subsidiary.

Santosh Sundararajan: We have thought of that also, we anyway function as a separate company. All our overhead, costs, everything is separately divided, everything is tracked separately. That is why in our presentation, we also give you a segment wise analysis. So, we are very clear on what is EPC and what is real estate. Just that our market cap and size today does not warrant us to further split the company at this point of time. Somewhere down the future, maybe we will think of it.

Moderator: Thank you. Next question is from the line of Harsh Shah from Dimension Securities. Please go ahead.

Harsh Shah: You mentioned about your Raipur project, which is stalled, so what kind of capital have we invested there and have we received or is it stuck?

Santosh Sundararajan: So, in fact, the good thing at Raipur is that we had taken about a Rs. 10 crores odd advance, and we have executed more than almost Rs. 140 crores, Rs. 150 crores of work so far, and that advance has been recovered by the client and our BGs have been returned. So, we really do not have a big exposure there. What we mobilized has also been more or less recovered in that sense. And in any case, our equipments that are lying at the site of few of them, we have documented the monthly cost of keeping those idle and the client has accepted that the entire reason for stalling the project is on their side. So, there is no dispute on that, it was a simple letter from them, it is a pure political call by the government in Chhattisgarh state during this time. I think we are all aware they have been taking on the center for focusing on construction when they should be focusing on COVID. So, I think in line with that, they have taken a call to stop this for a while. So, they are aware, it is their call. And whatever idling costs that we will accrue will be easily compensated by them. So, we really we do not expect any issue in terms of bottom-line there. But in the meantime, if the top-line was running at good pace, that we will miss seeing those Rs. 10 crores plus billings happening at a single site for a while.

- Harsh Shah:** Sure, understand. And just a book keeping question. When I look at your segmental profit and loss, this Slide #7, the total revenue there comes out to be around Rs. 531 crores, whereas the net sales which you report is somewhere around Rs. 509 crores. I would assume that difference is the internal EPC between real estate and EPC segment, right?
- Santosh Sundararajan:** Yes, that is because of that. Yes, you are right.
- Harsh Shah:** That entire is internal segment?
- Santosh Sundararajan:** Correct.
- Moderator:** Thank you. The next question is from the line of Amar from IISB. Please go ahead.
- Amar:** So, my question is about the other expenses. And we can see that the team has worked a lot on other expenses. Other expenses in the last two quarters are around Rs. 9 crores compared to Rs. 31 crores in FY 2021. Just wanted to understand what has led to this reduction. And apart from this, have you identified any other area where you see further reduction in terms of expenses in order to increase the gap between expenses and revenue?
- Rajesh Mhatre:** Yes, so the other expenses, I think, had a component of provision that we had taken last year, so that is why it will look abnormally high last year. Otherwise, in general, without one-off things like high provisions that we would take, we are at a run rate of about Rs. 4 crores to Rs. 5 crores per quarter on other admin expenses. We continue to keep reviewing all of these, these are all admin expenses at each city offices, secretarial costs, audit costs, all of these. We continue to review and monitor each one of them every quarter and see wherever we can reduce. There are a lot of heads that add up to this. But we could say safely that about we have stabilized at around Rs. 4 crores per quarter for these kinds of expenses. So, I think considering that we expect to grow over the next two quarters, we would not take a target to reduce these much, because again, we will have new rentals that come up in different cities and all of that. So, if we stabilize at around that number, I think that should be fine.
- Amar:** Okay And just one more question about your projects in EPC business. Are you in conversation for any kind of projects in Tier 1 cities of northern India like Delhi NCR?
- Santosh Sundararajan:** On EPC, as I said, on EPC we are across the country. We are very nomadic, wherever we get a project that makes sense, we go there. And then if we have no other work from there, we wind up and come out also. So, that we have been doing across the country. We have so far not gone to the East of India, but any city in North, West and Central India and South India, we have gone, we have worked, we have come out, we will happily go again if there is an interesting project. So, EPC, the moment it is above Rs. 100 crores, typically now we say in a city where we are not operating if there is a project upwards of Rs. 100 crores it is worth considering and the costs of establishing there. Because we do not really establish a permanent base, we establish

a temporary base. As far as real estate is concerned, no, the answer is a clear no, as I said, we will focus only in Pune.

Moderator: Thank you. Next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Can you shed some light on the asset monetization plan? What is happening at the real estate land and the other products? And investment in our hotel we were trying to monetize, any update on the same?

Santosh Sundararajan: No, actually over this quarter, no real significant update on any of the asset monetization. I think all the low hanging fruits we finished off in the last two years, we are left with the tougher ones, which you are all aware of. But no real progress, given COVID all the more, hotel industry again has taken a temporary blip. So, no real progress on negotiations on these fronts. Hopefully, next quarter we will revive talks and then make something happen this year.

Abhishek Jain: What kind of proceeds we are expecting it from the asset monetization?

Santosh Sundararajan: To be honest, there are two fronts. See, we have a TDR sale which is actually closed out and signed off. So, we do expect the cash flows from that to come, and we have sales from Windermere, which is not really, but we do consider that as asset monetization because it is a project with OC and there is inventory there. So, with both of these, we do target to reduce our Kotak debt by half this year. The other bigger ones like Kaledonia, and our Aurangabad land and our Goa hotel, I really do not want to set a target, we are working on them. Again, the talks have gone slow because of COVID. Once the market revives, we have a good opportunity to dispose, we are always working, we are always looking out to monetize these three, which will help us kill our debt faster.

Abhishek Jain: And do we own some land in Thane also, sir?

Santosh Sundararajan: We own the land in Thane, we own a good amount of land in Thane, we have 45% stake in an entity which owns 150 acres. So, we own about 70 acres. But this is also not entirely continuous land, there is no title issues generally as such, but it is not a contiguous piece of land and it is in fragments. And we would need capital to sort of accumulate further. So, we are parking that for the moment, we will give it a little bit of time to gestate as an investment. And maybe a couple of years later, we will see how to liquidate. It is a big investment, it is a huge amount of potential, money and cash flow that is stuck there. But I think this is still not the opportune time to be able to encash it.

Abhishek Jain: So, in next two, three years you are planning to monetize that asset also going forward?

Santosh Sundararajan: Yes, eventually it is a big, as I said, 70 acres in Thane is a big holding. Since it is not entirely contiguous with the road frontage, it is not in a position to launch a project or to sell it off as one piece to someone or make a scheme yet. We will have to work on it and then monetize it. So, we do not want to commit any numbers on that or look at that to help us reduce our debt in the short term or any such thing, that is a longer-term bonus for us going forward.

Abhishek Jain: Sir, who owns the other 55% stake in that JV?

Santosh Sundararajan: There's an HNI from Bombay.

Moderator: Thank you. The next question is from the line of Vishal, an individual investors. Please go ahead.

Vishal: I think as long term shareholders, the EPC business has done pretty well over the last few years. Sir, my question to you is, particularly with regards to the real estate business. I would like to draw your attention. Some four years back there was a proposed strategic investment into the group and there was a presentation shown that this is a trajectory which Vascon intends to hold over the long-term. So, from a real estate business perspective, I think in the last four years there has been just two project launches of Good Life and Forest Edge. And even in the assets which we see in the balance sheet, which we are still trying for four years, Kaledonia and others, taken quite a long time. So, we just wanted to have your outlook. I know you covered it briefly, your outlook on real estate, but I think have we been too conservative as far as this business is concerned.

Rajesh Mhatre: As you rightly mentioned in the latter part of your question that we have been conservative as far as our real estate business was concerned. Yes, from 2018 if we see our previous year's performances in terms of value of sales, we did Rs. 180 crores, we increased to Rs. 280 crores. And post that, in fact, in the previous year we did Rs. 116 crores and during this COVID year we have done Rs. 120 crores. So, initially, obviously the strategy was, whatever projects were there, we went ahead, we launched projects were very, very promising. And those were easy fruits, easy to sell. We went very, very aggressive. And post that, in fact, the risk reward ratio, obviously, from the company's holistic perspective also changed. So, we decided to be more conservative. In hindsight, if you look at the strategy, it has benefited because, yes, if we had too many ongoing projects and due to COVID, obviously, we would have been impacted. Thankfully, that conservatism definitely has benefited the company. Some of the projects which we have at hand, our project in Kharadi especially, it is like a very, very hot cake. As and when we receive approvals, in fact, it will be sold very, very fast.

So, some of these assets are promising, they will be generating a significant amount of cash flows for the company. At that point of time, probably, in fact, the company would be in a better position to take decisions based on the asset allocation and the risk profile which the company would like to be in. Currently, we would like to be conservative, we would like to go ahead with the Coimbatore launch as and when we get those approvals, essentially because it is just an

additional phase. In fact, we have done our diligence, we are confident about selling that and then focus our energies over here. So, yes, outlook towards overall real estate business from the company has been conservative and we are pragmatic about it. And yes, real estate, the EPC business is going strong, and it has supported well. So, both the businesses are complementing decently, as far as this time is concerned.

Vishal: Would this be the philosophy in the foreseeable future over the next three years, on a philosophical line of projection?

Rajesh Mhatre: If you want to see, EPC will continue to grow. The way it has grown, we have really stabilized that business, we have brand expertise, and the DNA of the company is essentially an EPC company. For real estate, as Santosh pointed out, we consider the real estate more as glorified EPC rather than real estate. The way the world is panning out between haves and have nots, the more professional players will garner more and more portion of the real estate sales. We have been seeing that happening in Pune, the consolidation is happening, and it will continue to happen. The biggest brands are definitely going to prosper. We definitely have a very, very strong brand, a strong image and strong ability as far as Pune market is concerned. We believe that all these factors will come into play as far as we progress. But definitely, there is no point being overly aggressive on that front. The game of patience definitely has helped the company to grow stronger. We have reduced our debt; the overall balance sheet of the company is becoming healthy. We will continue with the same strategy and definitely we expect to earn rich rewards going forward.

Moderator: Thank you. The next question is from the line of Arun Kumar, an individual investor. Please go ahead.

Arun Kumar: A couple of small questions from my side. If you could throw some light that residential, obviously, we have now too many questions on residential it seems. So, in residential, what has been the last year per square feet realization in terms of sales, compared to a year before year-on-year and quarter-on-quarter for quarter four, if you could throw some light?

Rajesh Mhatre: See, actually, we will come back to you which specific answers. But what happens is, it depends on the mix of your sales. Currently, Windermere has accounted for a significant portion of the sales composition. So, therefore, suddenly you will find that your per square feet realization, I think, definitely it will be in upwards of Rs. 7,000, Rs. 8,000 per square ft for this year. And for last year, it will be somewhere around Rs. 5,500 to Rs. 6,000. But we will come to it, we will get back to you on the exact number.

Arun Kumar: My question was actually, I am not looking for exact number, I am saying that whatever inventory you have sold in terms of residential in the last financial year and the last quarter, compared to the previous financial year and corresponding quarter last year, do you see the realization or the sales per square feet on an increment side or it was on slightly on a discounted

side or could be on the same? It could differ from project to project, but you could throw some light it would be great.

Rajech Mhatre:

See, on the pricing front, as far as luxury is concerned, let us step back. If you say luxury is concerned, just post COVID definitely it was an opportunity for a lot of players, in fact, to really not care about their brands, not care about what is happening in the market. And really to do things what is right, typically. So, therefore, a lot of players dropped that luxury prices and that helped, coupled with the government benefit in terms of stamp duty. So, it helped to generate a momentum and which led to a huge amount of sales happening and generating that luxury momentum. Obviously, the prices again caught up more or less, at the same level. In fact, if you come to a segment which is just a tad below luxury, the prices definitely have remained firm, in fact, they have only increased and not decreased. The section which is affected by COVID will be the affordable housing segment where the projects being farther, in fact, to really generate that sales momentum you need to really take that customer, generate that lead and make him visit outside the city, travel is a problem, transport is a problem. With COVID related risk, yes, in fact that is one particular section that has been affected, and it will continue to remain affected. But otherwise, the residential sales have definitely increased.

People have realized over a period of time the importance of a larger house. The layout really has come into play. Vascon is known for its wonderful layouts. The way the company stresses on the design, there is very, very strong stress for design as far as Vascon is concerned. So, the good projects, in fact, if you see, Forest County in fact we just have one unit to be sold, absolutely tremendous amount of response that we are seeing for further phases also if it comes over there. Projects like Forest is again in Kharadi. Again, 100% being sold. The issue is, we do not have absolute inventory over there, therefore the sales number numbers are definitely single. If we give projects, see what happens is, discussing a sale of Rs. 100 crores or Rs. 150 crores, it is really very, very small amount of sale definitely for a company and a brand like Vascon, as many of you will build definitely see. A couple of projects, it is not difficult to do sales worth even Rs. 200 crores, Rs. 250 crores to Rs. 300 crores in the current market. Hopefully, post launching of Kharadi, in fact definitely there will be, altogether speaking, a different outlook as far as the sales are concerned. But post COVID, stronger players definitely are being stronger, brands will definitely enjoy an edge and residential sales will continue to remain strong.

Arun Kumar:

Okay, that is fine. So, my second question was actually slightly on this Kharadi and IT corridor. Your residential projects are essentially on the IT corridor, and we all know that, that in a little over a year or close to a year, and going forward, most of the IT companies have opted work from home culture. So, probably residential, we also know that a lot of unsold inventory is still lying and selling at a very huge discount in Pune corridor. Not only in Pune corridor, but also in the IT corridors of Mangalore, Bangalore, part of Chennai and also in Hyderabad. But it is a remarkable feat if Kharadi, which is upcoming IT corridor. And also which probably is the

second known kind of corridor, Kharadi, which is becoming, and we have been able to sell all your unit barring one, I think it is appreciable, which is quite appreciable.

Rajesh Mhatre:

See, in fact, it will be great if you people absolutely take time and actually visit this project. The way in fact the projects have come up, definitely why Vascon enjoys that edge over the other competitors will definitely see from the layout that has come up. The prices also are at least 10% to 15% premium to what the prices we have sold during the COVID times also. So, yes, it is a good feeling and we are just waiting that when we can lay hands on next launch that would be coming in, in this financial year.

Arun Kumar:

Okay, that is good. And my third and last question is this, slightly backed up by political decision, hope you have been able to take it. So, now looking on to the condition of the center government where they have absolutely wiped off from all metros and extended metros and major markets, the only hang now they have is the UP where the election is going to go in probably January or February. So, since that is a fate play where center and state both are the same from one political party, probably we can see a slew of projects, EPC projects and commercial project being getting launched, and probably with advanced payments so that a lot of development can be seen visible. If my assumption is right, then what are the projects you are bidding in terms of UP? A few of the projects you are in UP West, in Noida, close to NCR. But any such kind of projects which you see which our government is going to release and therefore your action on procuring those kind of projects? Because they necessary will be more than Rs. 100 crores. If anything, they want to make it strong to at least get to some meaningful result of UP election.

Santosh Sundararajan:

See, normally, I will tell you, our strategy has always been the reverse. When we are close to an election, and when somebody wants to, as you say, ring a few bells pre-election, it is generally not a very good period to pick up those projects. Because the project will last three, four years, the UP election is due early next year. And whatever project they try to announce today and make news out of whichever the government, and we pick it up, you are right. projects will be available, they will launch a few more projects. But we would be cautious because when the government changes, a lot of these projects also come under headwinds, political pressures from the new. So, you have to be lucky that the same government continues and then you will be fine. So, we have gone through these kinds of situations in Andhra Pradesh, in Tamil Nadu in the past. So, generally when a state election is coming up, and the state government is announcing new projects, we are pretty cautious normally. Having said that, just three, four months ago we have picked up Rs. 500 crores in UP, those are also partially center funded. So, we do not expect the state government to have full control on these hospital projects, which we have taken. And so that is the reason why we did took them. So, maybe you are right, maybe there will be a lot of state government announced projects in UP. But we would not go aggressive, we already have a good exposure in UP so I think we would stay shy and look at other states as of now.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Sir, can you throw some light on GMP, how the business is moving up there right now? And any plan to divest or any thought on the same? Second question of the real estate projects which we are booking Rs. 90 crores, what kind of cost we have booked in this particular year?

Santosh Sundararajan: So, I will take the first question on GMP. As I said, GMP has done about Rs. 150 crores this year, they were expecting to do a bigger top-line next year. But again, this first quarter second wave has impacted them. So, they are revising their guidelines to do the same, about Rs. 150 crores to Rs. 160 crores, and they are hoping that they will slightly improve their profitability this year. They have an order book of close to Rs. 200 crores, out of which almost half is overseas orders. So, for GMP, their order book is normally six months to a year, unlike Vascon which is a three, four-year order book, they extinguish their orders within a few months. So, Rs. 200 crores order book in hand is a decent number. We expect to book another couple of Rs. 100 crores over the year. So, they are doing fine, they have become profitable. Again, COVID is still not letting them fly the way they should, so maybe next year they will be much better. In terms of divestment, we will wait for them to stabilize at an acceptable EBITDA based on which then we can get the correct valuation for the company. So, we will look at it maybe a year later.

In terms of real estate, I think I would say actually, see, there will be inventorized. What happens in real estate is, the construction costs for those projects have not hit the P&L, they will be inventorized till the day you recognize the sale. On that day, the entire cost will also hit you. But the cost that hit you is the marketing, sales, salary, the running expenses at the site, those cannot be inventorized and those continue to hit your P&L. So, to answer your question, this Rs. 90 crores of these two buildings that will come this year, the construction costs will also hit the balance sheet only this year. But their overhead cost and operational costs have been hitting us in the past year and the year before that also.

Abhishek Jain: What kind of margins are there in real estate businesses?

Santosh Sundararajan: See, the gross profit level in both these projects, we have decent margins upwards of 30% to 40%. The issue, again same thing that EPC is also at this point of time same situation that real estate is that, at Rs. 100 crore top-line for real estate and another Rs. 350 crores top-line for EPC, we would be just making small profits breakeven after our overheads and admin costs and finance costs. So, at a gross profit level, both businesses really do not have a problem, they are having decent margins as expected in their line of business. So, it is the top-line that is lacking for us to see proper PBT's and EBITDAs below. So, we are working on that, EPC is there, this year it will EPC will reach a level where we will see those numbers, post overheads. And real estate hopefully next year will catch up on that too.

- Abhishek Jain:** Sir, one more question on the real estate side. On the SBI, are we going to refinance our Windermere funding, because it was the higher cost funding, so any refinancing on cards or anything happening at that level?
- Rajesh Mhatre:** So, we have already extinguished that, from Rs. 105 crores we are down to Rs. 70 crores, and we are continuously reducing that debt. So, there are sales in Windermere, there is a TDR sales as I said, so half of that we plan to extinguish over the next few months by these accruals also. And then subsequent to that if we are left with Rs. 30 crores, Rs. 40 crores, towards the end of the year we will see if we want to refinance it or raise some other mode of finance to kill that debt.
- Abhishek Jain:** Average cost of debt should come this year?
- Rajesh Mhatre:** Current is 14, so it would come down.
- Santosh Sundararajan:** Cost of debt will come down a little bit. More than cost of debt coming down, we want the debt only to come down faster than the cost of debt. Because see, we have two debts, essentially one is the Windermere debt and one of the EPC debt. EPC cost of that slightly keeps coming down based on RBI guidelines and what SBI and the consortium of banks extend to us, that is already a decent rate which is in the range of about 11. We will get that down, that will come down to close to 10. The high cost data at Windermere, which rather than try to shuffle and to bring the cost of debt down, we are focusing on trying to bring the debt itself down faster.
- Moderator:** Thank you. As that was the last question for today, I would now like to hand the conference over to the management for closing comments.
- Santosh Sundararajan:** Thank you, everyone, for your participation. Wish you all a great day. And you could please connect to Stellar IR Advisors for any other queries that you may have. I will see you again next quarter. Thank you.
- Moderator:** Thank you. On behalf of Arihant Capital Markets Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.