"Vascon Engineers Limited
Q3 FY2022 Earnings Conference Call"

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MANAGEMENT: **DR. SANTOSH SUNDARARAJAN – GROUP CEO**

MR. SOMNATH BISWAS – CFO

Moderator: Ladies and gentlemen good day and welcome to the Vascon Engineers Limited Q3 FY2022 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Sundararajan, Group CEO, Vascon Engineers Limited. Thank you and over to you Sir!

Santosh Sundararajan: Thank you. Good morning everyone. I welcome you all to the earnings conference call of Vascon Engineers quarter and nine months ended December 31, 2021. Joining me on the call is Somnath Biswas, our CFO and our investor relations teams Stellar Investor Relations.

I believe you would have gone through the Q3 FY2022 financial results and results presentation uploaded on the Stock Exchanges and on the Company's website. Vascon Engineers embarks to move towards trajectory. The company's proficient team and rigorous hard work has begun to show meaningful outcome in the company's performance. In the recent past, the company faced various headwinds, which were progressively resolved thus heading towards achieving new heights. Our emphasis continues towards debt repayment and building a robust order book with reliable clientele.

Commenting on the industry, the budget for this year provides impetus on growth through various policies laying the blueprint to steer the economy for the longer term. Capital expenditure budget increased by 35% to Rs.7.5 trillion from Rs.5.5 trillion, infrastructure growth focus in various sectors outlined under the PM Gati Shakti Scheme including roads, railways, ports, airports, logistics and PM Awaaz Yojana which focuses towards affordable housing. Government of India aims to spend Rs.10 lakh Crores on infrastructure creating strong visibility for the infrastructure sector.

During the quarter, the company witnessed strong execution sequentially as well as on yearly basis backed by return of gradual normalcy. The successful mass vaccination drive by Government of India mitigated the impact of third wave thus safeguarding from any material impact on regular business activities. In Q3 FY2022 all, the projects were operating at optimum level enabling faster project execution. We believe that the execution will continue to gather momentum going forward. I would like to throw some attention on debt repayment. As on December 2021, the net debt has come down to Rs.75 Crores from Rs.187 Crores in March 2020, a reduction of Rs.112 Crores. In addition, the company has received a rating upgrade during the quarter.

The EPC segment during the quarter witnessed a fast track execution of the projects. EPC segment revenue stored at 282 Crores for nine month FY2022, major projects namely the Maharashtra State Police Housing, PWD, Raipur Hospitals that Kaushambi and Bijnor are running smoothly. Third wave of the COVID 19 pandemic had no material impact on our

execution. The order book close to 2,000 Crores we envisage the EPC segment to deliver strong performance going forward.

The real estate segment after various headwinds in the recent past is gaining momentum. There is gradual recovery in the demand as economy moves towards normalcy. Our real estate revenue stood at Rs.31 Crores for nine months FY2022.

A quick update on the ongoing projects; forest Edge B is 95% sold, Windermere is 74% sold and Vascon Good Life is sold at 63%. The project in the near pipeline includes residential projects at Coimbatore, Madurai, Ajanta and aggregate sale value of Rs. 875 Crores with Vascon's share of Rs. 531 Crores.

Other launches include a residential project Willows, one commercial and residential project at Kalyani Nagar with expected sale values of up to Rs. 1,000 Crores. GMP business continues to deliver sustainable performance with revenue of 125 Crores for nine months FY2022 and healthy gross margins of 33%. EBITDA stood at Rs. 7 Crores and margin of 6% in nine months FY2022.

Company is relentlessly focusing towards deleveraging its balance sheet by repayment of high cost debt. The total consolidated debt has brought down by 30% as on December 2021 compared to March 2020. The net debt as on December 2021 stands at 75 Crores compared to 187 Crores in March 2020. Deleveraging will aid towards efficient working capital management. We are continuously working towards liquidating the assets to generate additional cash flow.

Coming to the order book the current order book stands at Rs.1,976 Crores of which Rs.1,904 Crores comprise of external orders. During quarter, the company received an order of Rs.199 Crores from Vedanta Limited with the scope of construction of cane oil and gas residential complex in Barmer. Work is expected to commence in the current quarter.

As per our strategy of building order book with trusted clients, 76% of our order book comprises of government projects. With government's push towards infrastructure, we envisage that the future order pipeline will be promising and our optimized leverage position will enable us to capitalize on the opportunities.

On the strategy, the company is focused towards building a strong order book enabling the execution to continue at current levels. The EPC business will be the prime focus of the company going forward.

Let me now take you through the financial performance. Let me start with the standard numbers. During Q3 FY2022 the company reported a total income of Rs.166 Crores as against Rs.105 Crores in Q3 FY2021, a growth of 59% year-on-year. EBITDA stood at Rs.37 Crores as against Rs. 8 Crores in the corresponding period last year, reported net profit of Rs. 31 Crores in Q3 FY2022 against point Rs. 0.2 Crores in Q3 FY2021.

On a consolidated basis in Q3 FY2022 the company reported a total income of 213 Crores as against 158 Crores in Q3 FY 2021. EBITDA stood at 37 Crores and net profit at 29 Crores.

With this we can now open the flow for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We take the first question from the line of Shrey Gandhi from Arihant Capital Markets Limited. Please go ahead.

Shrey Gandhi: Good morning Sir. Congratulations for a good set of number. I have my question regarding the margins. How do you see the margin outlook going ahead for the coming quarters and for the next coming year?

Santosh Sundararajan: There are two divisions EPC and real estate. The EPC gross profit margins have stabilized in the range between 16% and 18% over the last few quarters. I think anywhere above 15% is a sustainable gross profit margin which will continue going forward to the next year as well. As far as real estate is concerned, the gross profit is upwards of 20% but the revenue recognition comes depending on completion of the project and so obviously on a quarter basis, it is difficult to track but real estate margins Windermere was the only project, which is now getting extinguished where we have low margins. Once that is done the balance projects in hand that we are launching are well above 20%, 25% gross profit margins in real estate.

Shrey Gandhi: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Monika Arora from Share Giant Wealth Advisors. Please go ahead.

Monika Arora: What revenue contribution we see for FY2023 for real estate business?

Santosh Sundararajan: In FY2023 we expect two three things to happen. One is our Katvi phase one will get completed so that will give us a revenue of almost 80 Crores. We will also be having a sale of an asset in Ajanta, Karadi so that will also give us about 20 Crores so these two are targeted to get completed. The other things would only be launched and in progress and forest Edge B yes one more project will get completed about 150 Crores of project revenue would get completed in the next financial year.

Monika Arora: Okay and what is the order book for EPC?

Santosh Sundararajan: The order book is about 1,950 Crores to 2000 Crores for the order book is concerned.

Monika Arora: What is the order book target for the real estate business?

Santosh Sundararajan: The real estate we are looking at tying up joint venture projects in Puna primarily that is the focus of the real estate division. They really do not have an order book target per se but we are looking to tie up at least four to five projects in Pune in prime city locations that is the target. We already

have three projects that we are going to be launching. We have Coimbatore and a housing project in Pune which are already tied up to be launched next year, both of these put together plus the ones that I mentioned in Kalyani Nagar all this put together share that we will be launching over the next you know 12 to 15 months Vascon's share would be close to a 1000 Crores but then we would also be looking in the meantime to tie up new joint ventures so that you know the year after that we have new launches to have to make.

Monika Arora: Any progress on the Caledonia non-core asset sale?

Santosh Sundararajan: No. Nothing. We are still trying to monetize it.

Monika Arora: Just last question what are the segments you are exploring for EPC segment basically?

Santosh Sundararajan: In EPC our company is focused on building division only. So far we have not explored other forms of infrastructure like bridges, roads or ports or sewage treatment plants but within buildings every year we are making an entry into a new segment of buildings. We were originally only into commercial and residential buildings. Currently we are working with metro departments, we are also doing hospitals in a big way, we are also doing airports, so the intent of the company would be to continue to grow in various directions within the building industry.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Arissan Group. Please go ahead.

Manish Agarwal: Congratulations on good set of number. I have a couple of questions, Sir one of our non-core assets which we are planning to realize is a 9 acre land parcel in Aurangabad. So could you give some details of the land parcel like how much it is and what could be the market value of the land parcel?

Santosh Sundararajan: So this land parcel was acquired by us long ago. It was with an intent to develop an IT Park in those days when this land was demarcated by the government for IT development; however, we did not go forward. At this point of time as you rightly said we are classifying it as non-core assets, which we are trying to sell. We are having interest from people and hopefully we will close a deal soon on this. The value of the asset would be roughly 30 Crores in the books and in the market as well. So we will not be realizing a big profit when we sell it, but it will help us deleverage and get some cash flows.

Manish Agarwal: Definitely Sir. My next question is the joint development projects which we do basically we have some real estate projects in the pipeline like Coimbatore, Madurai like what is the ratio of sharing in this?

Santosh Sundararajan: In Coimbatore we have a 30:70 joint venture with our landowner 30 to him and 70 to us, in Madurai this is closer to about 22:78.

Manish Agarwal: Like 78 ours and 22 landowners

Santosh Sundararajan: Yes.

Manish Agarwal: Thank you so much Sir. My next question is if we go through the quarterly results of December we find that we have loss on the operating side then what could be the reason why we are at a loss in operating level?

Santosh Sundararajan: So again unfortunately what happened that is why we have given you it will be nice to see the segment-wise analysis that we add to our presentation so you will see that what happens is that while EPC has been growing and EPC has reached a critical mass where it has turned profitable even at the operating level post the employee costs and other expenses, real estate; however, will only see this in quarters where the sale is recognized, in other quarters the overheads and certain costs which we cannot amortize like marketing sales cost, all of these continue to hit you quarter on quarter and so in a quarter where we do not have any projects it is not that Vascon has 20 projects in real estate going on so in which case every quarter we would see some completion since we have lesser projects going on in four quarters you might see one quarter where the completion happens and other quarter the completion does not happen and so we are yet to recognize no revenue, no significant revenue as such.

Manish Agarwal: My last question like we are seeing there is rise in metal price once again and also there is rise in other like cost also so what kind of the projects we have in hand, are we able to pass on this price rise to our consumers like our client?

Santosh Sundararajan: I will be honest it is not that it does not worry us at all. Everything is going up. You are absolutely right you know diesel goes up, petrol goes up, every cost has gone up quite a bit in the post COVID in the last 18 months, not only metals now, good amount of things are covered for us in most of our contracts, steel and concrete, which is bulk of our raw material cost or whether it is tiles or most of these things are generally covered in our contract because they are base rated so the client would have to bear those risks but even smaller things like labor and sand, metal some of these things in some contracts are not covered contractually and so there is no doubt that some of these hits are we are staring at some of that we are seeing how to mitigate, there are escalations and some contracts which covers some of these things in some contracts some of these things are not covered and the risk lies with us so but because bulk I mean I would say 80% percent of all this escalation lies with the client. It does not hit us but there is a portion of it which is definitely hitting us and we are seeing how to mitigate that.

Manish Agarwal: Can I ask just one more question?

Santosh Sundararajan: Yes please.

Manish Agarwal: What are our deleveraging plans going forward Sir?

Santosh Sundararajan: You would see that we have been working very aggressively on getting down our debt and so that is the target we had set ourselves. The focus of the entire company was on that. We worked with a very disciplined manner in spite of COVID derailing our plans over the last 18 months. We have still stuck here to the focus that we have to get the debt down maybe the order book could have improved all the other things we will now focus on going forward in the next year but the debt focus was the number one focus for the company. You will see that we have come to almost 75 Crores of net debt even the gross debt numbers have come down significantly. Going forward see there is a CC limit with the EPC division to the tune of 60 Crores to 70 Crores which is also backed up because of the bank guarantees that we take which is also backed up again almost 45 Crores, 47 Crores of FD lying with the bank so effectively it is only a 15 Crores and 20 Crores not more than that of net debt that we would have on the EPC division. The EPC division intends to grow so maybe we will hopefully you know augment the CC limit going forward, not by much maybe 10 Crores, 15 Crores over the next year, but on the other hand the other debts, the real estate are continuously coming down, reported debt is now only a 23 Crores, we will hope to finish another 8 Crores 10 Crores of it within this financial year and within the first or second quarter of next year we intend to finish this debt totally. So I would say that the net debt at 75 Crores to 100 Crores would be the range at which we will remain 75 Crores over the next year or so.

Manish Agarwal: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Mohit Bansar from Ajinkya MPL. Please go ahead.

Mohit Bansar: Good morning. Thank you for the opportunity. My question has been answered. My question was related to the sale of non-core assets more or less you answered this. I just wanted to understand the execution run rate for the EPC project and what is the forecast on the order book?

Santosh Sundararajan: So you will see that the last entire year we had done about 280 Crores in EPC, the year before that also we had done around 280 Crores 290 Crores in EPC so last year in spite of provide we achieved what we did in the year before that. This year in three quarters already we have done what we did last year, we are already upwards of 280 Crores to 290 Crores in EPC execution third party and the fourth quarter is also going strong. So we expect to cross 400 Crores by a decent amount this year, which would be a significant growth compared to last year in terms of topline therefore and I have always maintained that you know the moment we cross 400 Crores on EPC revenue that is when we will be able to start seeing profits in the EPC division after all the costs below the line and that is already happening this year. The EPC division is having if you see the segment wise analysis you will see it already reached about a 7% EBIT margin. Next year this 400 and 400 plus Crores we will definitely achieve somewhere between 500 Crores and 600 Crores with the existing order book in hand. The other good news is that our rating has improved and our debt has come down and our balance sheet is going to look P&L and balance sheet this year is going to look much better than last year. With these numbers post March we will then be approaching the banks for revised sanctions, better terms and higher BG limits that

we will be able to get from them and then we can again refocus with a new target this 2000 Crores, our target within the next year and a half is that this 2000 Crores order background that we carry should go closer to 3000 Crores then we will be able to look at 800 Crores to 1000 Crores of execution in couple of years from now.

Mohit Bansar: Thank you Sir. This is good news. All the best.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question. What is the current cost of debt and what do you expect post rating upgrade and revised terms which you will submit with March papers?

Santosh Sundararajan: The current cost of debt is about 15%. The FDI debt is at a lower, main debt that we intend to carry on with is that significantly lower close to 10% so we will be intending over the next year to knock off all other high cost debts and with the rating revision if we are able to renegotiate so we should be bringing this down, not only did that also be the cost of debt of 15% should definitely come closer to 10% to 12% over the next year.

Nitin Gandhi: Thank you.

Moderator: The next question is from the line of Trupti Singh from Pearl Global. Please go ahead.

Trupti Singh: Thank you for giving me the opportunity. I wanted to ask that what run rate the company will start reporting profit at EBITDA level?

Santosh Sundararajan: As I said there are two divisions EPC and real estate, the EPC division has already started reporting those profits at EBITDA level from this year that will only continue to increase next year. Next year we have as I said about 150 Crores of real estate revenue to be recognized as well so even if those three projects come in which they will those three completions come in the next year then even real estate, real estate needs to do upwards of 125 Crores to have that positive EBITDA and that will happen next year and then from the year going forward it will only increase.

Trupti Singh: Sir what would be the sustainable gross margin for the company?

Santosh Sundararajan: Again for EPC division the gross margin would be anywhere between 15% and 18% going forward and that I think would be a reasonable number at which we have stabilized and we foresee the business performing at those levels. For real estate this margin could be anywhere between 20% and 30% going forward depends on the kind of projects and the market intake, the velocity of sales all of this put together, but it would be anywhere between 20% and 30% across margin.

Trupti Singh: Sir in your reported financials I see that there is other income of 44 Crores what is this other income and excluding that what will be our margins?

Santosh Sundararajan: For the margins for the various divisions we have given a segment-wise allocation. So what happened in real estate on the running basis, what happened in EPC, what happened in the GMP and what was the in one the other income that we had for the quarter. The other income primarily comes from the sale of our Goa hotel, which is about 42 Crores and we also had certain other expenses which we had to provide for so that is about 11 Crores of the net profit from that sale comes to about 27 Crores 28 Crores.

Trupti Singh: In the recent budget, how did you find the budget and its possible impact on our business as we now see that the government is pushing too much towards the infra projects now so do you see possible impact on our business and positive impact?

Santosh Sundararajan: Very much. I mean see finally we are so infra generally reminds you of roads and rails and bridges which we are not in but all these infra projects do come up with significant building constructions so we are now doing work for metro, we are doing work for airports, so these are all part of the infra plan envisaged by the government. They have now increased the budget allocation for all of these. So we do expect more projects to be launched by the government in all these directions and so we are excited. We are quite bullish that we will be able to now so we as I said we need to keep getting our house in order, we have been working on it diligently over the last two years. Debt has come down, things have improved, our rating has improved, next step next year is to go and get ourselves better terms with the banks in terms of BG margins and keep ourselves in a position where we can order book quickly. There will be orders in the market. We will be able to pick and choose orders to our terms. Yes the next two years definitely looks very promising and interesting.

Trupti Singh: Good to hear that. Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Can you please update on GMP? Any disinvestment plan because I think it is turning reasonably okay?

Santosh Sundararajan: Typically if you look at GMP has also started showing that award inclination. If you look at that already this Cube GMP has done a business of 125 Crores compared to 150 Crores what they did in the last year and this year we are envisioning almost at least 15% to 20% growth we were expecting but probably this year GMP will not be able to have that kind of bottomline because to some extent is not protected with the increase in the steel price but at the same time GMP started bagging some good amount of new order this current year so already they have had some almost 50 Crores to 60 Crores worth of order and almost 20 Crores to 30 Crores domestic order as well as they are getting a continuous inflow of the Mumbai Metro Rail orders and some old orders is

at the verge of renewable and all these things so GMP next year we are obviously expecting almost 200 Crores plus topline. So GMP currently is on the right path and there is a good amount of attraction is happening in terms of the overseas order also. To answer your question yes there is one team which is continuously working on approaching potential interested parties who would want to invest and those talks are also going on by the side.

Nitin Gandhi: So it will break even this year?

Santosh Sundararajan: Yes it should be yes.

Nitin Gandhi: What is the break-even point for GMP?

Santosh Sundararajan: GMP is already showing the profit, but due to price escalation there is slight bit of shrinkage in margin this year but whatever the ongoing project and upcoming project all is protected from that impact. So GMP will show at least 10% kind of EBITDA kind.

Nitin Gandhi: What is the general lead-like effect next quarter for price escalation?

Santosh Sundararajan: One good thing about GMP is they do not have contracts that last 24 months and 36 months like Vascon so whatever they have committed to generally gets extinguished well within six months so even if they have a commitment which is that prices which have gone up all those orders will get extinguished within this year, any new orders that they are currently bagging, would be based on the new prices of raw material. So unless the prices keep going up every two months which I do not think will happen they will then get projects at new rates and hopefully sometimes when the prices have gone up so much the prices could even come down next year a little bit if that happens the profit margins would increase for GMP. Let us see how this pans out.

Nitin Gandhi: With the current operating structure what is the potential revenue at maximum level for GMP?

Santosh Sundararajan: With the current kind of capex and all this, they have the potential turnover around 200 Crores to 250 Crores for anything higher order they need some kind of augmentation in the capital expenditure.

Nitin Gandhi: Thanks and for same ways can you share for EPC also?

Santosh Sundararajan: EPC I have always maintained about 750 Crores to 800 Crores is the point where we have to start thinking of capex in terms of human resources as well as in terms of assets but till then which is the next two years we do not see any major need for big capex.

Nitin Gandhi: Wish you all the best for FY2024.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Arissan Group. Please go ahead.

Manish Agarwal: Once again my question is I can see that repeatedly there is a decrease in promoter holding, promoters are almost selling shares every quarter so what is the reason behind that like why are promoters holding diluted?

Santosh Sundararajan: I think you got it wrong. Promoters are not selling shares at all. No promoter has sold a share in the last so many years as I know it. We raised capital in the quarter before last and so we diluted the overall base of the company. We brought in 70 Crores in which also the promoter subscribed but his subscription in that 70 Crores was not to the same percentage that he was holding uh pre-dilution and so there will be a marginal dilution because of this that you would see but promoters are definitely not selling.

Manish Agarwal: But that issue was in one of the quarters but if I can see that in December 2020 the promoter holding was around 36% then in March it went down to 35.7% to June September it came down to 34.95% and in December it is 31.99% but the issue was made at in one of the quarter but I can see that there is dilution in every quarter?

Santosh Sundararajan: So that is also because of the ESOPs. So there are two dimensions that happened one is ESOPs which dilute the promoter and one is the capital we raised.

Manish Agarwal: Thank you Sir.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Santosh Sundararajan for their closing comments. Thank you and over to you!

Santosh Sundararajan: Thank you all for participating. Thank you all for being interested in the company and backing us. We are looking at exciting times ahead. I do understand that our progress might have been a bit slow but we are making steady progress quarter-on-quarter to achieve our goals and we will only be doing better each quarter. I will see you again after next quarter's call. Thank you.

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