



“Vascon Engineers Limited
Q4 & FY2022 Earnings Conference Call”

May 25, 2022



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LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Vascon Engineers Limited Q4 and 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 for the quarter and financial year ended March 31, 2022. Joining me on the call is Mr. Somnath Biswas, our CFO, our investor relation team, Stellar Investor Relations. I believe you would have gone through the Q4 FY2022 financial results and the result presentation uploaded on the stock exchange and on the company’s website.

Key developments in FY2022:

The company has strengthened its balance sheet by raising Rs. 70 Crores through issue of preferential shares to marquee clients which has helped the company to be in a better position. Company has also reduced its debt by Rs. 98 Crores over the past two fiscal years with our total gross debt standing at Rs. 157.2 Crores as of March 2022 as against Rs. 255.3 Crores as on March 2020. The debt equity ratio has also improved from 0.19 times as on March 2022 from 0.35 times as it was on March 2020. We are pleased to report that the credit rating for long term bank facilities has been upgraded from BBB- to BBB and for short term bank facilities has been upgraded from A3 to A3+. During the last fiscal year, EPC revenues have increased by 38% year-on-year basis to Rs. 442.6 Crores, which is despite the second wave of COVID-19 which occurred during the start of this fiscal year. Our EPC order book has been robust during the year and the total order book stands at Rs. 1,832 Crores which also includes the external EPC orders of Rs. 1,774 Crores and internal orders of Rs. 58 Crores. This forms a strong order book of 4.5 times of FY2022 EPC revenue, providing strong visibility of EPC revenue growth for the next two years. Vascon has been concentrating its efforts on consistently monetizing its assets including the sale of 43.44% of share in Royal Orchid Hotel, Goa.

Vascon Engineers embarks to move towards growth 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 have progressively solved, 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 2022-2023 provide impetus on growth through various policies laying the blueprint to share the economy for long-term. Capital expenditure budget increased by 35% to INR 7.5 trillion from INR 5.5 trillion. All the state governments are likely to play a larger role in various sectors such as urban infrastructure, health and education. To give a boost in this sector, GOI has significantly increased their outlay in FY2022-2023 to Rs. 11 lakh Crores which is 6.5 times higher than the previous year's budget. Housing is one of the crucial sectors in the budget and the Government of India has allocated almost 48,000 Crores under PM Awas Yojana, which will be utilized on bringing transparency in the real estate sector as well as affordable housing for everyone which will lead to a boost in the housing sector. The residential sector is set to expand dramatically. The central government is intending to build 20 million affordable houses in metropolitan areas across the country under the Union Ministry of Housing and Urban Affairs ambitious Pradhan Mantri Awas Yojana scheme. The need for commercial and retail office space will rise as the number of housing units in metropolitan regions grow. By 2023, the commercial space is expected to reach 50 million square feet driven by various sectors such as IT, pharma, engineering, and manufacturing. Budget 2022 has been paced on a vision of next 25 years and has focused mainly on infrastructure development. Real estate sector has been filled with confidence as the Government of India has been promoting the economic uplifting by planning on bringing paradigm shift towards business approach. In the union budget, urban planning has taken a center stage, it will enhance the real estate industry to transition to Tier-II and Tier-III cities. The infrastructure growth focus in various sectors outline under the PM Gati Shakti scheme including roads, railways, ports, airports, logistics and PM Awas Yojana which focuses towards the affordable housing. Government of India aims to spend Rs.10 lakh Crores on infrastructure creating strong visibility for the infrastructure sector in the near future.

During the quarter, the company witnessed strong execution across EPC project as well as on yearly basis backed by return of gradual normalcy. The successful mass vaccination drive by the Government of India mitigated the impact of the third wave, thus safeguarding from any material impact on regular business activities. In Q4 FY2022, all the projects were operating at optimal 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 March 2022, the net debt has come down to Rs. 58.7 Crores from Rs. 134.1 Crores which was in March 2021, a reduction of Rs. 75.3 Crores. In addition, the company has received the rating upgrade during the quarter from BBB- to BBB and A3 to A3+ on long term and short-term bank facilities. More than 85% of the order book is from government projects which will help faster execution and uninterrupted cash flow. The company is relentlessly focusing towards

deleveraging its balance sheet by repayment of high-cost debt. The total consolidated gross debt has been brought down to almost Rs. 157 Crores in the past two fiscals from Rs. 255 Crores a couple of years ago. Deleveraging will aim towards efficient working capital management. We are continuously working toward liquidating the assets to generate additional cash flow. In EPC segment during the quarter, we witnessed a fast-track execution of the project. EPC segment revenues stood at Rs. 442.6 Crores for FY2022 with an EBITDA of Rs. 37.7 Crores. The major projects namely Maharashtra State Police Housing, PWD Raipur, hospital at Kaushambi and Bijnor. Third wave of the COVID-19 pandemic had no material impact on our execution. With the order book of close to Rs. 1,832 Crores, we envisaged the EPC segment to deliver strong performance going forward. We are witnessing orders from segments like Mumbai Police staff quarters, Raj Bhavan Vedanta apartment, Avanya project etc., in our EPC segment. Real estate segment is gaining momentum. There is a gradual recovery in the demand as economy moves towards normalcy. Our real estate revenues stood at Rs. 75 Crores for FY2022.

A quick update on the ongoing projects. Forest Edge B, Windermere Bungalow is fully sold, Windermere residential is sold 77%, Vascon Good Life is sold 63%. The project in near pipeline includes residential project at Coimbatore, Madurai, Ajanta with a ticket sales revenue of Rs. 875 Crores with Vascon share of Rs. 531 Crores. Other launches include a residential project Willows, one commercial and residential project at Kalyani Nagar with expected sale value of Rs. 880 Crores.

GMP business continues to deliver sustainable performance with revenues of Rs. 194.3 Crores for FY2022 and healthy gross margin of 33%. The EBITDA stood at Rs. 16.7 Crores at a margin of 9%.

Coming to the order book, the current order book stands at Rs. 1,832 Crores of which Rs. 1,774 Crores comprises of external orders, the order book is at a healthy 4.5 times the FY2022 EPC revenue. The Government pushed towards urban connectivity will create opportunity for the company and as per our strategy of building order book with trusted clients 85% of our order book currently comprises of government projects. With the government's push towards infrastructure, we envisage the future order pipeline will be promising. On the strategy Vascon 2.0 the company is focused towards building a strong order book enabling the execution to continue at current levels. EPC business will be the prime focus of the company going forward. We will continue to aim to reduce our gross debt levels.

Let me now take you through the financial performance. Let me start with the standalone numbers. During Q4 FY2022, the company reported a total income of Rs. 153.1 Crores as



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against Rs. 135.3 Crores in Q4 FY2021, a growth of 13.2% year-on-year. In Q4 FY2022, EBITDA stood at Rs. 13.2 Crores as against Rs. 8.8 Crores in the corresponding period last year. EBITDA margin was 9%. Reported net profit of Rs. 6.3 Crores in Q4 FY2022 as against Rs. 1.5 Crores in Q4 FY2021.

On a consolidated basis in Q4 FY2022, the company reported a total income of Rs. 221.9 Crores as against Rs. 191.8 Crores in the corresponding quarter last year. EBITDA stood at Rs. 23.6 Crores with a margin of 11% and net profit at Rs. 10.8 Crores.

With this, we are now open for question and answers. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Nilesh Gandhi from Mehta Design. Please go ahead.

Nilesh Gandhi: Good morning. Thank you for the update and we appreciate the efforts that Vascon has been taking. I just wanted to understand as you said EPC is going to be the focus for the company going forward, from the margin perspective, EPC offers what margin and real estate development as we seeing nimble footprint there but if you compare real estate development versus EPC, what is the rationale for focusing on EPC?

Santosh Sundararajan: The focus on EPC has been there over the last few years and we are seeing the results as topline has increased by 35% this year and we expect to continue that trend, so I would say the EPC how it has been set in order in terms of the only focus is now on continuously enhancing our limits with the bank, we are in line to do that because of our rating improvement and our balance sheet and P&L improvement, so this year we will hopefully augment our limits with the bank. So, when we say we are focusing on EPC, I do not think we ever said we are not focusing on real estate. Real estate definitely will have higher margins than we can earn in EPC even if it is where the land is on someone else balance sheet and we are focusing on brands and sales and execution, so the real estate team is currently tying up quite a few projects, there are quite a few enquiries, the market is looking up, there is a lot of optimism in the real estate market currently and so we are tying up new joint adventures, we hope to increase our real estate order book in the next couple of years but you will only see the results of them in numbers two years going down the line because it follows the completion method and so what we tie up now will take three years to hit our balance sheet and P&L, but there is no diversion from focusing on real estate, there are two separate teams within the company and real estate is set to grow very much.

Nilesh Gandhi: We have a very deadly combination of EPC combined with real estate which is I think adding substantial value and also does as a brand, Vascon is a very good brand established in the market now?



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Santosh Sundararajan: That is right.

Nilesh Gandhi: And on the order book of EPC, what is our hit ratio and how much volume are we currently bidding?

Santosh Sundararajan: The hit ratio of it is changing, normally itself our hit ratio is very low compared to some of our peers because we are extremely cautious and we do not set ourselves on unreasonable topline target just for the sake of bagging orders, we are always constraint by BG limits and so we will not want to be using our BG limits on a wrong project and then not having available limits when the right project comes along. Further add to this in fact the last few months we are all aware of the inflation that has happened in our market, prices were sky rocketed every element things that are covered for us contractually and things that are not covered for us contractually everything has gone up and so the cost of construction has gone up which few of our contractors who are aware of these things are aware that the next projects has to be there at a higher price, but unfortunately in the market a lot of bidding is happening at rate which were time measure or to a rate which are not fine today and so we have seen that over the last six months wherever we have participated what we expect to get is a good 8%-10% away from that the contractors being bid by some of the competition, so once things clear I think step by step, month-on-month everybody is waiting up to the actual inflation that has happened, things do not seem to be coming down at the pace at which they went up and so only when competition realized it will we be in a position to bid fairly otherwise the guys who have realized it are staying from bagging project at the wrong prices and then struggling for the next two years.

Nilesh Gandhi: Critical material input items we will be having as the requisite escalation clauses and market linked pricing for cement, steel and stuff?

Santosh Sundararajan: You are right, in fact I used to always say on the call that our projects are covered by inflation clauses that we have but the inflation is to be extend like it is currently happening, labor has gone up, diesel has affected, every transport cost to go up, so there is a good 25%-30% of our execution value which is not covered by contract, salaries, rents every other thing is not covered by contract and so these overhead aspect itself are leading to a good increase at this point of time, in the existing contract, we have escalation clauses covered by PWD and our debt rates then wherever we did not have certain cover for the other items, we are in negotiations with the client and it looks like at some point of time we will be getting certain benefit passed on by the clients in these aspects but for new projects we do not want to take risk bidding low and then just banking that we will be able to push our way through later.

Nilesh Gandhi: Would it be correct to say that like we have so much of government projects in hand, so Vascon has found a sweet spot because it takes lot of efforts into venture into government projects, handle the bureaucracy and manage the cash flows, so would it be correct if we say that we have a good track of managing government projects now?

Santosh Sundararajan: See, I think five years - seven years ago, we have focused primarily on private projects then after having burnt our fingers in the last cycle, we then decided that government project we cannot stay away from government project and so we have to learn the track of handling the bureaucracy like you put it and I think yes we have ventured into that direction and we have set up our name over there now most government bodies know us and they trust us and so yes we have carved a mark for ourselves there but I will be honest, we would now want to also get back little bit in the private sector with RERA and with certain credible clients now knowing what exactly they want to do in real estate and having their funds tied up I think private sector is also presenting opportunities and we would like to not stay away from private sector like we had in the last few years.

Nilesh Gandhi: Well, how about the cash flows in government projects, how are we improving working cycle, are we reducing that time frame of payments?

Santosh Sundararajan: So, the thing about government projects is monthly bill certification and payment do not seem to be a problem in most of our project in fact than in all of our projects and the issue comes in these escalation, the extra bill the escalation when these sometimes extra items these get take time to get certified because of the bureaucracy, they need to pass through various tables and they need to get cleared to various board meetings etc., so those expenditures that we incur at size in terms of escalation and extra items they remain packed for a while and they take a few months to get cleared but the running bills do not have a problem.

Nilesh Gandhi: Okay, one last question, how strong is our PMC team, I understand managing this we will need a very strong and robust project management inhouse team, so if you would just throw some light onto who are the people who are driving this project on the ground?

Santosh Sundararajan: So, we have excellent project management system, our strength I would just say is our tracking system, we have excellent software, we have invested in all kind of softwares to ensure that all data from across the project across the country is available on an hourly basis with us in head office, we have an audit team internally that goes and audits all these projects to ensure that data feeding, I mean software is one thing, garbage in garbage out was an issue for us a while ago, we have now educated all our stores and all our professionals working at site with the importance of data feeding and the accuracy of data feeding that they need on a daily basis and so these generate all the reports and the MIS that



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we need sitting in head office as the management and then we are able to take calls, we are also fairly a small company but it helps we have monthly review with our top VPs and project managers who come down to Pune and we stare at all the numbers and we review the cost to completion and review the profitability and any claims that need to be made etc., so we have a very robust project tracking team.

- Nilesh Gandhi:** Lovely, we could go on and on but I would stop for other questions. Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Ranuka Jadhav, an individual investor. Please go ahead.
- Ranuka Jadhav:** Thanks for the opportunity. I have couple of questions, my first question is like in Q4 FY2022, execution continues strongly across the EPC projects, can we experience the same kind of trend in the coming quarters?
- Santosh Sundararajan:** Yes, so Q4 FY2022 was good and we expect to continue the trend going forward in this year, normally in our industry Q2 is lower than Q1 and Q3 because of the rain that affect that period, so that is standard thing that happens in our industry, but the average topline of quarter-on-quarter this year compared to last year for each quarter would definitely be significantly higher.
- Ranuka Jadhav:** Okay and also like in the previous call you have mentioned that you received a new order from Vedanta on the construction of a residential complex, so I just wanted to know what is the status of that and when are we expecting the project will be completed?
- Santosh Sundararajan:** Project had 18 month timeline starting from January, the first four months there were regular mobilization issues at site to do with pre-clearances from the client, certain other clearances from the client as well as it is in a remote location, so it has been tough for us to mobilize so it took a month or so longer than we would normally do in another project, there are local issues, so we sorted all of that, the funds are available, the excavation and foundation they have started as of now, so from here we expect to finish it in 14 months.
- Ranuka Jadhav:** Okay, 14 months?
- Santosh Sundararajan:** Yes, 14 months – 15 months going forward from now, from May.
- Ranuka Jadhav:** Okay Sir and by when the company is expecting to be debt free?
- Santosh Sundararajan:** Sorry?

Ranuka Jadhav: Debt free, like by when the company expect to be debt free?

Santosh Sundararajan: So, again here are two divisions real estate and EPC, we were stuck with the big debt specially on the real estate sectors over the last three years – four years that was not been serviced by the project, it was taken for and that was burdening our balance sheet and burning up cash flows as the company as well, so we focused on bringing that down, that was also a high cost debt, the debt is almost now coming close to zero to be intend within the next by Diwali, will extinguish Kotak debt that we have but we have a working capital limit with SBI for the EPC and that gross debt we do not actually intend to bring it down to zero, EPC would need a little bit of working capital, we do not want to increase it drastically but I think it will remain, also it is backed by the fact that we have FDs lying with the bank for our margin money that we need to put up for the bank guarantee, so the net debt in EPC would be very minimal close to zero even at some point of time but the gross debt that CC limit that we will have from SBI for the consortium of bank that we work with to the tune of about Rs. 70 Crores that would remain.

Ranuka Jadhav: Okay, Sir one more question like can you give some future guidance on the capex for the next two years to three years and what can be estimated like the order book for FY2023 and FY2024?

Santosh Sundararajan: This year, we fell short of our order booking target that we have taken at the beginning of the year but as I said over the last five months – six months it was pretty intentional we do not want to just achieve the target for the sake of achieving, I think all of us know achieving in topline target or the order booking target is not difficult, it is achieving the order booking target with the intended margin that is difficult and we could not find those opportunities over the last five to six months because of the insulated prices and our costing has gone up whereas peers costing does not seem to be caught up rather so the clients are awarding at prices which we know is loss making, good luck to those project but we stay clear. Going forward I think if this stabilized strictly everybody is now aware of the inflation and aware of the new cost, so this is already beginning to stabilize, so going forward in this year we definitely will have to book Rs. 500-600 Crores if not more of order book, so that we remain inline for growth going forward.

Ranuka Jadhav: Okay Sir, that is it from side. Thank you.

Moderator: Thank you. The next question is from the line of S K Damani from SKD Consulting. Please go ahead.

S K Damani: Good morning, my question is regarding in view of the very steep rise in the prices of all raw material related to construction industry, how we are placed and how we have planned

to mitigate, are the clauses in our contracts provide for goods security of the price escalation and how we are going to manage the cash flow in coming days in view of this?

Santosh Sundararajan: This question has been asked over the previous calls and I have always maintained we have a pass through on most of our costs and therefore this drastic escalation of steel and cement will not be passing through our balance sheet, which will not hit us but we are also waking up to the fact that it is not just 60%-70% of the material that are covered under the contract for us, even the balance 30%-40% as other cost is rising at a very high pace and we are definitely staring at a little bit of variation in our gross profit levels as it stands, may be couple of basis points if nothing goes in our favor, we are staring at it, it would be wrong to say otherwise, but what we are doing is we are going back to our government clients and citing COVID as the reason for delay and the exuberant price increases which had affected us and we are putting claims which are beyond the contract if you may say it some way and most of the contractors are doing this and so the government bodies are also waking up to the fact that they need to assist us in some way and so we are hopeful. It will be a long process, it will not be so easy but we are hopeful that whatever I am talking of couple of basis points erosion will come back to us by way of certain help from our clients because they are waking up to this. Every contractor is facing this so it is not only Vascon's issue and I think the government bodies are step by step as per the authority metro, they are all realizing that they will not be able to just stick to contract and they will have to find ways to assist us.

S K Damani: In continuation I just want to know I mean has it not be any slowdown in construction activity there whereby our working capital interest and loan interest is going to be a burden in the days to come and how about the private sectors where we are working for private sectors..

Santosh Sundararajan: There is no slowdown for us in fact we have done 30% more last year and we will be doing the same growth rate for EPC this year, so there is no slowdown from our internal point of view because we do have the order book, the order book is fully active, all projects are running at good speed, so in spite of certain cost going up it is in our interest to push the project at the highest phase so that our overhead ratio come down and we might be able to mitigate a little bit of the inflation, so slowdown is definitely not a concern for us. What was your second question?

S K Damani: Yes, in private sector the government made the jump considering there are certain indexes I am aware which are been applied to give from price rises but in place of a private, if we have taken a firm commitment then there will not be any escalation?



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Santosh Sundararajan: So, we do not have much private sector order backlog, so I think hardly 10% of what we will execute this year would be from private sector, so that is not really much of a concern for us.

S K Damani: Okay and my final question, as far as real estate is concerned, are we at the close of most of the project or are we starting a fresh that is one question, and second is certain lands which are transferred to us in view of our giving them some certain share, so are we planning to sell those Powai lands which are taken or have we already sold this?

Santosh Sundararajan: Real estate you are right, real estate this year will also still not peak, all efforts are being made internally to provide real estate and put it back on a growth trajectory like EPC has already reached because we have an excellent brand, we have the team and we have opportunities available in the market now in terms of joint venture. Currently most projects that we have in hand are close to be sold, there is inventory in Talegaon, little bit in Windermere but these are not huge amount of efforts on the sale team would not be needed here, so we are focusing on lining up new projects and we will be coming back with a good amount of real estate order book going forward, that is a primary focus for the company and the team is entirely working hard on it and with regards to that Powai land, we have not sold it, we hold it in our books even now and we are looking for those opportunities whether we get excellent sale price then we are open to sale but in the meantime we are planning a projects on it and if the sale does not come through by the time the projects planning in approvals are in place, we are open to launching project in Powai and executing it.

S K Damani: Okay. Thank you very much Sir, I am obliged. Thank you.

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

Santosh Sundararajan: Thank you everyone, thanks for your faith in the company and your interest in this call and I will see you again next quarter. Thank you.

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