# "Vascon Engineers Limited
# Q3 & 9M FY2023 Earnings Conference Call"

February 02, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to the Vascon Engineers Limited Q3 and 9M FY2023 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. Santosh Sundararajan, Group CEO, Vascon Engineers. 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 Q3 ended December 31, 2022. Today joining with me on this call is Mr. Somnath Biswas, our CFO and our investor relations team Stellar Investor Relations. I believe you would have gone through the Q3 and nine-month FY2023 financial results and the results presentation uploaded on the stock exchanges and on the company's website.

Key developments in Q3:

**Credit rating and likely positive impact on BG limit:** As we have mentioned in our recent calls, there has been an improvement in our credit rating. Acuite Rating has upgraded its rating in February to a BBB stable for long term and A3 stable for short term facility. CRISIL has also assigned rating for BBB stable for long term and A3+ for short term rating. This is likely to help the company in two major ways. It will help in renegotiating for lower interest rates on our borrowings with the banks and would also help raise higher bank guarantee limits which is crucial for bidding newer projects and thereby improving our order book position and continue the EPC execution run rate.

**Real estate segment continues its growth momentum:** As you may be aware that since the nature of the bookkeeping treatments given to revenue and expenses for real estate entities based on Ind-As, income is booked on a project completion basis making it unpredictable in nature whereas administrative as well as other expenses are recognized on a quarterly basis. Because of the time difference between income and expense floating, revenue is not recognized in certain quarters. In contrast to those quarters where revenue is booked the real estate business will generate a loss. In our real estate business this was a major reason for volatile real estate performance in the past few years. However since the beginning of the current fiscal we have been clocking consistent revenue in real estate on the back of efficient projects. Our new sales booking in nine months FY2023 stood at 1,43,236 square feet area for a total sales value of Rs. 91 Crores. During nine months FY2023 our real estate revenue stood at Rs.82 Crores and EBITDA at Rs.25.8 Crores.

Gross margin came in at 47% while EBITDA margin was at 31% in Q3 FY2023. We are hopeful of maintaining the momentum in real estate as we are witnessing increased demand in real estate segment as we are tying up with new realtors based in Pune, Mumbai and Coimbatore. We recently bagged our first redevelopment project which is expected to generate a revenue of Rs.249 Crores.

**EPC execution run rate continue:** During the quarter EPC revenue increased by 55% year-on-year and 6% quarter-on-quarter to Rs.166 Crores.

**Debt repayment continues**: The company has repaid a significant amount of high-cost debt which has eventually helped the company to bring down its financials cost during the year and it has improved the cash flow generation. We are happy to report that over the past 21 months we have reduced our gross debt by Rs.71 Crores to Rs.143 Crores as on December 31, 2022, as against Rs.214 Crores a year ago. This along with improved cash flow generation has lead to the net debt of only Rs.31 Crores as of December 31, 2022, as against Rs.134 Crores as of March 31, 2021. Also, we are expecting better business performance and cash flow generation from the company by the end of FY2023 and we will reduce our debt going ahead.

In terms of order book, our EPC order book has been robust. As on December 31, 2022, the total order book stands at Rs. 1,625 Crores which forms 3.5x times our EPC revenue providing strong visibility of EPC revenue for the next two to three years. Of the total orders, external EPC order stands at Rs.1,321 Crores and the balance Rs.300 Crores is from internal orders. For the almost 74% of the order book is towards government projects which provides visibility of faster execution and uninterrupted cash flows.

Lastly the GMP business continues to deliver sustainable performance in the past quarter as well. Revenue of Rs.167 Crores for nine months and a healthy gross margin of 31% EBITDA that is Rs.12.84 Crores with 8% in the nine months FY2022.

Coming to the industry sector in 2022, India’s real estate sector made a remarkable comeback. The sector has few problems which aren’t solved yet as it continues to face its major concerns like high input cost and rising loan rates. The real estate sector is rebounding from the pandemic volatility and is expected to stabilize further with supportive announcements made in the union budget recently. As per the budget, the Government of India has ordered to build infrastructure in tier two and tier three cities. The Central Government will establish an urban infrastructure development fund with an annual budget of Rs.10,000 Crores and it will be managed by National Housing Bank and it will be used by public agencies for constructing infrastructure. The Government of India has allocated Rs.79,000 Crores which was 66% higher as compared to the budget 2022 for the Pradhan Mantri Awas Yojana anticipating a further boost for providing housing to the urban poor. According to NITI Aayog prediction the Indian real estate industry would achieve a value of 1 trillion by 2030 and represent 13% of India's GDP by 2025.

On the overall financial performance, let me start with the standalone numbers. During Q3 FY2023 the company reported a total income of Rs. 200 Crores as against Rs. 166 Crores in Q3 FY2022 a growth of 20.7% year-on-year. In Q3 FY2023 EBITDA stood at Rs. 16.8 Crores as against Rs. 36.6 Crores in the corresponding period last year. The EBITDA margin was at 8%. Reported net profit of Rs. 13.3 Crores in Q3 FY2023 against Rs. 30.94 Crores in Q3 FY2022. In Q3 FY2022 the company includes a one-off item which constituted to Rs. 31 Crores relating to a sale of investment in a hotel.

On a consolidated basis in Q3 FY2023, the company reported a total income of Rs. 255.90 Crores as against Rs. 212.74 Crores in Q3 FY2022, a growth rate of 20.3% year-on-year. The EBITDA stood at Rs. 23 Crores with an EBITDA margin of 9% as against Rs. 36 Crores in Q3 FY2022 and a net profit at Rs. 16.33 Crores as against Rs. 28.71 Crores in Q3 FY2022.

To conclude with, we would like to reiterate that the company continues to be focused towards building a strong order book enabling the execution to continue at current levels while aiming towards achieving net debt close to zero to optimize leverage position which will enhance profitability. With this we can now open the floor for questions and answers. Thank you.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. We take our first question from the line of Dhananjay Kumar Mishra from Sunidhi Securities. Please go-ahead Sir.

**Dhananjay K Mishra:** Can you provide guidance in terms of bid pipeline for the next six to nine months and any order inflow factored in the next two months in EPC segment and also second question is while your debt is reduced to Rs. 131 Crores, what was the need of doing this NCD at 18% which was announced today?

**Santosh Sundararajan:** So, with regard to the bid pipe-line we are bidding for a few projects. We have a little bit of BG limits available at present. On the one hand we are trying to enhance our BG limits with the bank with the revised rating, that process is going on and once new limits open up, we will be able to bid more aggressively to increase the order book. However, even within the existing BG limit, some old BG have come back and we have a little bit of limit available so based on that we are bidding and hoping to bag about Rs. 500 Crores to Rs. 600 Crores in the next two to three months so that we start next year with close to Rs. 2000 Crores of order book or at least Rs. 1800 Crores of order book in hand which will help us keep our run rate going upwards even for four more quarters next year and next year definitely with the enhanced BG limits then we will aggressively look to keep our order book upwards of Rs. 2000 Crores going forward so that is the target. It has been a bit sluggish compared to what we would have wanted it to be purely because of the BG limits not getting enhanced as fast as we want, but we will track that soon. As regards to the NCD it is a small amount. It is unsecured debt which is expected to be a very short-term debt as an immediate capital required to fill a few tenders. Some of these tenders require huge amounts of cash EMDs to be put in while filling the tenders. We are targeting to fill at least five or six of these tenders in the next 20 to 30 days and it might be high cost, but it is expected to be extremely short term and the reason it is high cost it is completely unsecured so we do not want to go into a proper banking procedure of securing debt.

**Dhananjay K Mishra:** So, what is the current level of BG limit and what percentage you have already utilized?

**Somnath Biswas:** The current BG limit was close to Rs. 180 Crores and out of it almost Rs. 25 Crores is unutilized currently.

**Dhananjay K Mishra:** Rs.25 Crores is unutilized?

**Somnath Biswas:** Yes.

**Dhananjay K Mishra:** The total limit is Rs.130 Crores?

**Somnath Biswas:** Rs.180 Crores.

**Dhananjay K Mishra:** Rs.180 Crores?

**Somnath Biswas:** Non fund limit is Rs.180 Crores.

**Dhananjay K Mishra:** Okay so for new project are we getting customer advances?

**Somnath Biswas:** That will be considered once we get become L1 & get LOI and all the other terms and conditions. We are bidding but whether that ones will be there or not and all these things will be decided at that point of time. Normally typically most of the cases where it is based in Pune and Mumbai do not need too much of advances because we have that sufficient equipment and all these things construction equipment in hand so the major requirement is once we get the tender and become L1 and then we have to give the performance bank guarantee so the fundamental requirement of the BG is to provide the performance BG.

**Dhananjay K Mishra:** In terms of non-core asset monetization which is given in the presentation that nine-acre land in Aurangabad and then GMP business what is the status?

**Somnath Biswas:** The nine-acre land there is a notice already given that we got the NOC from SBI to go ahead which was on hold for a long time but now NOC has been obtained so we have are progressing probably may once in a month or two this will be completed. The transaction will be completed and again obviously it will take some more time because GMP is also setting up in a right manner. It is bringing in a good amount of business so probably most of the cleaning part and all this work has been done so we are enchasing the value and depending upon the taxing we will start a deal with the appropriate valuation what we are expecting.

**Dhananjay K Mishra:** Okay and lastly in terms of this year revenue can we achieve Rs. 1,000 Crores because you already had close to Rs. 7,00 Crores in nine months so given the current run rate of it can we achieve Rs. 1,000 Crores in this year?

**Somnath Biswas:** It is our wish list but let us see how we can fulfill our plan.

**Santosh Sundararajan:** Hopefully, we will achieve.

**Dhananjay K Mishra:** Okay Sir that is all from my side. All the best.

**Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.

**Himanshu Upadhyay:** Good morning. My first question is on this pipeline okay, the real estate project pipeline what we have can you tell out of the five projects how soon can we launch these projects?

**Santosh Sundararajan:** The real estate projects pipeline and estimated launch time, but Powai and Kharadi is likely to be launched within span of two to three months time as it is the last leg of approval expected, so it is soon to be launched. In Santacruz redevelopment also we are almost done, it has been more or less completed so very soon we are going to execute the proper agreement with the society and the Tower 3 & 4 will take some more time but it is in advance stage but probably it will take another five to six months time to be launched not before that.

**Himanshu Upadhyay:** Okay and in Pune market where we have the most brand recognition or I would say what type of products are doing pretty well in that micro market and what are we doing to grow the pipeline in that market? Any thoughts on that?

**Santosh Sundararajan:** So, I think it depends on the location since we are now operating in varied locations within Pune and Mumbai each location the kind of product that is selling is different. We are doing in Talegaon and over there obviously the demand is for lower cost housing whereas we are also doing in Kharadi and then we plan to do in Baner, then we plan to do in Powai and in Santacruz so obviously each location the ticket that is fast moving is totally different and therefore the product is dependent on a market survey specific to each location.

**Himanshu Upadhyay:** One thing so for a project where the project has been sold okay and the cash flows which will be coming from that project in let us say residential real estate what is the cost of funding if we have let us say Rs. 100 sales done and this is going to be a collection over let us say next three years when the project gets completed and half will go to construction but the rest half is so what type of cost will it be and is there a significant arbitrage if we have means construction real estate project we have and we can hypothecate the cash flows any thoughts on that? We may not have to take the 18% cost of debt so just trying to understand what is your experience and can it be a possibility?

**Santosh Sundararajan:** We are getting unnecessarily laid by the NCD that is part of the board meetings which is only a Rs. 10 Crores NCD for a specific purpose as I mentioned and so our intention is not to be taking debt at 18% in huge numbers because a specific purpose short term unsecured debt which is quickly available, we needed it in very short term. We did not have time to go through bank procedures and we intend to extinguish it also fast. This is definitely for EPC. Now on the real estate side our strategy is to be doing joint ventures or redevelopment therefore we will not be having land in our books. We will not therefore be needing any capital to procure land which would neither be funded by equity or debt and so our borrowing would be limited to a little bit of construction finance. Probably we would have to invest a little bit of marketing cost initially to launch the project. Certain approval expenses for phase one and then we will be getting construction finance at very reasonable rate to tie up and those will be very small amount project specific which will again be extinguished within the tenure of the projects within a year or two as we move along on the project. We do not get to recognize revenue till the project is completed with the Ind-As however we do get to collect cash flows and utilize those cash flows so normally as long as land is not in our books and we are not funding land. To become cash positive on these projects is not at all difficult even if achieve 30% - 40% sales or 50% sale the cash flow collections that come based on the stages of collection they will ensure that we are cash flow positive so I do not think that we are concerned of having the borrow at high cost to fund real estate.

**Himanshu Upadhyay:** One thing the JDs and JVs what we do okay? What is the risk of inflation in these projects okay and how do we minimize that risk because we give area share and if the cost of construction goes up this may be a novice question but just your thoughts on how do you generally structure the JDs and JVs?

**Santosh Sundararajan:** So you are right the JVs and JD is either a revenue share or an area share. Normally we prefer a revenue share model because the landowner generally prefers a revenue share model because he does not have ability to sell so we have an escrow account whereby the stipulated percentage of collections goes towards the landowner and the balance comes to us. The risk of inflation is there. The only saving rate for us is that we do not end up selling everything on day one and then construct for two and a half years. We do have stock in hand. We did sell as we go along and generally as you know every real estate player in the country, we do quite a bit of JVs for the last few sales. Once we secured our basic cash flows to ensure that the project will run smoothly. We do hold back a bit of a stock to be sold at a later date towards completion because the prices that you can get towards completion is always better than what you will get at launch when the product is almost delivered and there are quite a few customers who want to get their house within two months and not wait for three years and the price increases so we do always hold some stock towards the end so that is sort of a buffer to help us in case there has been too much inflation then we can sell those off quickly at higher prices because the market would have gone up but having said that inflation is also covered by us in our costing assumption when we consider our construction cost that we will be constructing over a two year period and therefore 5% to 6% per year or 12% will be the cost of inflation that is considered in our costing before we launch or we start selling.

**Himanshu Upadhyay:** One last thing this GMP Technical Solutions which we want to hive off, we have made our intentions clear for a pretty long period of time on this? What is the progress and any change of views or we are very clear and any time frame we want to have on this business of hiving off or whatever structure you want to do?

**Santosh Sundararajan:** So there is no change in plan. We definitely want to take an exit. It is a non-core activity for us. The management of Vascon are all civil engineers and we have huge experience in building a brand in real estate in Pune and in turn key contracting across India. This is what we understand. This is what we are good at and this is what we will back ourselves to be doing and we will not be bringing to the shareholder any other expertise because this is what we have on the table so we will not want to be answerable on holding of hotels or holding of GMP where we are not experts so there is no difference in the strategy. You are right the strategy has been made clear more than five years ago and in line with that we have step by step exited whatever else we had. We have exited from a couple of hotels. We have exited from a few land holding parcels. Now primarily what remains is Thane land which we can utilize within our expertise of real estate and what remains is GMP. These are two big assets. These are big elephants in our balance sheet which we do not want to be in a hurry or in a desperation to get hive off because that is our strategy. We will definitely exit these but the right valuation. As far as GMP is concerned the two technocrats running the company are definitely incentivized themselves and are focusing on ensuring that there is a steady just we have been doing on EPC in Vascon over the last 8 to 10 quarters you will see steady top line increase. We have a steady bottom line increase so we want to achieve the same graph for GMP so that when we go to tutor and there is creditability then we project the graph that this is what the EBITDA can easily do and we are on track. GMP has been doing well over last five to six quarters. May be another three to four quarters if they continue their graph and we have a credible growth story which is backed by 10 quarters of what we have achieved then we will take that story out and see what good valuation we can get and we will look to get out of that.

**Himanshu Upadhyay:** Okay thank you from my side and best of luck for the future.

**Moderator:** Thank you Sir. We take the next question from the line of Bajrang Bafna from Sunidhi Securities. Please go-ahead Sir.

**Bajrang Bafna:** Congratulations for a good set of numbers. Sir my first question pertains to you have already clarified the kind of whatever intake that you are looking at? Just to broaden that sense what sort of critical threshold of margins that we are targeting because in the last time if I recall it right you said that we are looking for projects which can have 10% sort of margins so any broad sense that the projects that we are looking at because we have let say the BG limit which are not available so we have to take some sort of cost element in terms of higher cost at which we are doing right now so considering all those aspects if you could guide us what segments especially on today building site that we are looking at where we can generate 10% or may be slightly higher margins that is my first question.

**Santosh Sundararajan:** That has always been an endeavour that we want to be selective and ensure that we take up projects on day one which we see that are margins because once we have committed to a project our resources or bandwidth everything gets committed for a period of two to three years and if the margins are very low then we are wasting our resources, our top management time and not adding value to shareholders so we are very careful that we try and enter projects which we see margins. One way we always do this is that focusing on design and build projects because our strength is in design and when we have a design and build projects we are able to use our design expertise and all engineering aspects and see if we can make an optimize solution that gives 2 or 3% point more of margin for us, so the government is also now very happy to be floating tenders in this mode. A lot of the departments are floating tenders on a design and build basis so we focus on these to try to bag orders in this mode of construction which is our expertise so that way we are able to sort of protect the margins that we want but having said that we are up against competition. We might want to have double digit margins and that will definitely be the goal to increase our topline hopefully. Our PBT will reach that 10% on the EPC segment next year. For that we will have to be at 15% gross at the project level. This is the aim but so far, we have been fairly successful in doing is what I could say.

**Bajrang Bafna:** Sir I hope that this year we are going to close the year on EPC side close to Rs. 600 Crores kind of run rate for this year? What sort of guidance that you could put in because you already indicated that the closing order book could be to the tune of Rs. 1,800 Crores to let us say Rs. 2,000 Crores and can we expect the number to substantially go up next year because if we go through the budget documents also which is putting lot of thrust on the infrastructure side where the huge sum has been allocated and I am genuinely seeing most of the one side the government is indicating huge budgets but the people like you and even I would not name but I know lot of your competitors who are doing the similar business are also struggling for this BG limits. It is not only you who is struggling right now. I can name 10 people who are struggling for the same problem right now so what is that which is prohibiting these banks because this really, I need to understand because it is not a problem of Vascon. It is a problem of all those EPC contractors who are struggling to get BG limits from the banks right now so that is really something which is you people should come together and fight with the system because that is not your alone problem and because of this I am seeing that all of you are just handling back your hands to go aggressively and bid for orders and work good for the country so this is something which is really, I am not able to understand and I appreciate that one side there is hug push which is coming from the government and on the other side banks are locking their hands and not lending to this sector so that this can flourish so how this game will be accomplished so if you could just throw some sense because since you are a veteran in this industry could help us to understand that.

**Santosh Sundararajan:** I was very happy to hear what you said because you got it spot on. It is not that the contractors do not meet and discuss this. You got it absolutely spot on. The government wants to push. They announce schemes in every budget and that is the intention from so many governments and so many individuals to construct, but barring a couple of extremely big business houses who are able to secure their BG limits through various assets that they have, most of the mid level contractors are struggling to get BG limits from the bank because the banks view EPC as a negative sector for whatever reasons they have also gone through their own set of troubles with this sector in the past few years. There have been encashments and so the bank has made it much tougher. They want huge margins. They are not ready to give BG limits and they want huge collateral. Now whether to view this as a good or a bad is something which we are also confused on because let us be very clear. BG paper are always a risk on my balance sheet and the bank’s balance sheet at the cost of the client. Now I am not very happy putting these BGs up either. Why do I have to put so many papers to a client just to take a drop from him whether he is a government or a private client and these papers feel like easy papers to put up on day one but at the end of the day there are huge risks for me. They are a huge risk for the bank. For example, two years ago during the pandemic and due to struggle the government did come up with a scheme that instead of 5% performance bank guarantee they will reduce it to 3%. That was a good relief. We got quite a few projects where were able to only give 3% of performance bank guarantee. Now they have lifted those limits back to 5%. This is exactly what you said is happening. The government will realize that contractors are not able to participate in the way they want to participate in the growth story because of these. Something will give way either the banks will have to make it a bit easier for us to procure these limits or the clients will have to expect lesser guarantees on these projects because otherwise the story will not happen what the government want will not happen so you are absolutely right. Something has to give in this. I hope the client which is the government sector generally does not ask for so many guarantees because that will make it easier. If the bank gives it easily and fall the short-term thing but the risk remains on my balance sheet.

**Bajrang Bafna:** Got it because just a 10% to 11% to 12% margin business and on that so much of struggle BG and the cost of that builds up where the few companies will earn money so that is really sad and I recently heard L&T concall also where they are talking about they moved out of bidding from road projects because we do not see any margin threshold which is there in that entire business and our country is saying we will build highest ever roads so if the builder is not getting what he deserves then how can we expect the quality to come through? That is really sad?

**Santosh Sundararajan:** Absolutely that is there but having said that the governments keep learning step by step and if there is an intent, I think step by step problems do get like I said in COVID they immediately realized and they brought down the limit to 3%. Now they have made it 5% but I think sooner or later the government will realize that the kind of bank guarantees for advances and performance that they expect projects will not get delivered. Secondly one good thing as I said if the government will be giving a lot of projects on design and build mode so I think there is a learning there that design and build is where they are able to get the best price for the tax payers and the best quality for the tax payers and they are able to incentivise the contractors to probably use this skill and make some money as well so it is a win, win solutions with more than the private I am saying the government has learnt and the government is floating tenders in this mode so this is encouraging so hopefully the government will react fast enough to know sort of this BG issue. As I said one way to address it is for them to talk to the banks and say help the EPC sector out but I hope they address by saying okay let us ask for lesser guarantee in the first place. Why put so much up but in the meantime, we are too small to fight that battle we keep. Of course, we will be putting up in all forums that this is the problem at the country level but in the meantime, we are hoping to secure Rs. 50 Crores to Rs. 70 Crores of BG limit for ourselves so that we continue to keep our 20% growth to carry.

**Bajrang Bafna:** Got it Sir and the only reason we are looking at your company is that there are hardly any balance sheets which are having this kind debts? We are almost virtually debt free and if we talk about the Thane land and the land bank that you are holding it is a surplus. Probably the paper liquidity right now but once you monetize it will be net liquidity to the company and that is the whole purpose to look at from that perceptive that you have got lot of inherent value which will be realized over a period of time so just to get a sense on my question which I asked on the first part the next year kind of the growth that you are looking at broadly as per you? I am not saying that give us the exacts number but the kind of some ballpark indication 20% growth or 30% growth that you are looking at for the next year would be really helpful and on a consol level what sort of margin that you are looking at? I got a sense on the EPC side but the other real estate is hopefully on the higher margin side and again your GMP is on a lower margin side so consol what is the ballpark target that you are putting for next year if you could guide us will be helpful Sir?

**Santosh Sundararajan:** Sure, I appreciate you highlight that our debt is very low. We have worked very hard on that over the last three to four years in spite of Corona to ensure we come to close to zero debt level. We were quite high three years ago and so we are very happy that in spite of tough times we have reached here. This helps us even with bottom line because the interest cost is now drastically low but having said that while that is from a balance sheet point of view a very good reason to hold off let me also reiterate to you we are at a position where we are not a very big company so it is still easy for us to keep our growth story alive and secondly as I said design and build mode of contracting is becoming more and more popular from the client side and that is where our strength is. We are in top three to four contractors in the country who can offer competitive bids on a design and build and so we are very bullish that to keep our growth story alive and deliver and keep making the double-digit margins for our shareholders is not going to be a big challenge. The only small challenge as of now is the BG which we already discussed probably will pan out in our favor soon and so to answer your question guidance for next year is what we have been growing. This year was of course abnormal growth I would say compared to last year because all the pent-up growth that was pending for Corona and all that has got unleashed now so we hope to be doing Rs. 500 Crores. Last year we did not and no finally we will be doing close to Rs. 600 Crores or plus Rs. 600 Crores this year and then from next year my guideline will be in the range of 20%. We should target to continue our growth story for the next year at least and then we will provide an outlook for the year after that depending on the BG limit because if the BG limit are sorted and I have Rs. 100 Crores extra BG limit then even I can look at 30% growth also by booking a bit more orders because our capacity to deliver there upwards of Rs. 1,000 Crores so we are still performing under our capacity in terms of assets and senior staff talent so we will reach their very soon and then we will take it forward from there.

**Bajrang Bafna:** And putting real estate together because I hope that this year will be close to all put together Rs. 1000 Crores on a consol basis so how that is going to look like next year broadly including the real estate side because that is what we are aware that we are going the deliver next year on real estate side?

**Santosh Sundararajan:** So I will give you. Real estate over the next three to four years is set to grow like EPC has suddenly grown. Real estate we are a separate field fully focused on ensuring that real estate grows in a cautious manner without obviously we were buying land in the next three to four years so we are working on lining up projects that are at least four to five new projects that we are being lined up but real estate revenue recognition will always come with a lag so we can expect that in the next four years we will have on an average at least Rs. 200 Crores to Rs. 250 Crores of real estate recognition in fact Rs 300 Crores of real estate recognition in our books over the next four years per year average but what exactly will come next year depends on projects completion. We have had three or four completions this year so we have some revenue recognition. Next year the real estate revenue recognition might take a back seat but it will come in the year after so if you want to plot it out over the next four years we will definitely have on an average Rs. 250 Crores to Rs. 300 Crores of real estate per year if we continue to grow at 20% and GMP will also continue to grow at 20% so yes Rs. 1,000 Crores this year should look at Rs. 1,200 Crores next year and so on and so forth but as I said the only qualification, I would like to make is because real estate might not come on to the books than for this projection might look off but in general it will be happening.

**Bajrang Bafna:** Got it Sir. Thank you very much and all the very best Sir for your good performance going ahead.

**Moderator:** Thank you Sir. We take the next question from the line of Rahil Shah an Individual Investor. Please go ahead.

**Rahil Shah:** My question was on the line of the margins as well and I believe Sir has explained that very well so I would like not to repeat. Thank you and good luck.

**Santosh Sundararajan:** I would also like to say since we are discussing margins to point out that this three quarters we do not expect anything in the Q4 as well. This year whatever PBT, PAT, EBITDA whatever is entirely operational not a single Crore out of that has come from one off sales which was the sales last year. Our profit last year was by the way of selling an asset. This year whatever we see in from the real estate, GMP and EPC. All three divisions, hard work and profit coming from operating margins.

**Rahil Shah:** Okay, that is quite helpful.

**Moderator:** Thank you Sir. We take the next question from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Thanks a lot for the opportunity. I wanted to understand how do you look at profitability of real estate business because what I feel here as your annual sale rate is around Rs. 100 Crores and probably over action should be around Rs. 5 - Rs. 6 Crores so how does one look at profitability in this business if you can explain it? The pipeline is huge?

**Santosh Sundararajan:** Yes, it is a good. I am very glad you asked.

**Tushar Sarda:** The current business seemed to be very high?

**Santosh Sundararajan:** You are right. You got the numbers right. We are at about Rs. 20 Crores per year overhead directly and therefore Rs. 100 Crores is only a breakeven topline for real estate. This was where EPC was struck at Rs. 300 Crores three years ago. If we do Rs. 300 Crores of EPC we get breakeven. When we do Rs. 600 Crores we see the PBT. Similarly real estate will only see the profit when they cross Rs. 200 Crores of topline that is why I said we are working very hard to ensure that we are well above Rs. 200 Crores of topline delivery real estate sector alone. Then that will more than cover for these overheads otherwise we will breakeven at Rs. 100 Crores. They were breaking even in real estate so you got bang on. The second point to answer your question we are looking at real estate as glorified EPC. In EPC we are looking to get 15% gross profit which will translate to 9% to 10% PBT. In real estate we look to get 25% gross profit. We can therefore hopefully translate to 15% PBT down the road when we do Rs. 200 Crores to Rs. 250 Crores per year so that is the only difference. It is still harnessing our construction and design trend and adding a little bit of sales and marketing. We are not looking at good financial cost because those will be on partnership from someone with some or we might be looking at land first because that share is to the landowner so what we are focusing on is one third of the real estate story which is construction, design, build, marketing and sales. That is the story we are focusing on so in that city I think 25% gross profit is what we could expect. That will roughly translate to about 15% of sales.

**Tushar Sarda:** What will be your sales guidance for the next two to three years? What kind run-rate for next year?

**Santosh Sundararajan:** As I said if you take a four-year period starting from next year then definitely, we will do more Rs. 1,000 Crores in that period. How much of it hits quarter-on-quarter is very difficult to predict because of lining up new projects. To be honest next year we might not be finishing many projects. This year we are finishing at least three of our old projects which means next year we might not have any completion project coming in except maybe one or two small projects and therefore while we will be doing our hard work collecting a lot of real estate cash flows as well but we will not be seeing revenue recognized but if you look at a four-year period, we will definitely do more than Rs. 1,000 Crores. I am giving a conservative estimate here. We will do more than Rs. 1,000 Crores of real estate revenue over a four period that translates to on average Rs. 250 Crores per year and if we do Rs. 250 Crores per year we will definitely see healthy PBT from the real estate position.

**Tushar Sarda:** Okay thank you very much.

**Moderator:** Thank you Sir. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments. Thank you and over to you Sir.

**Santosh Sundararajan:** I would like to thanks everyone for participating and taking interest in our company and I will see you again in the next quarter because we will be in a better set of results. 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.