"Vascon Engineers Limited

Q4 FY '23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Vascon Engineers Limited Q4 and FY '23 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 star then zero 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 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 fourth quarter and full year ended March 31, 2023. 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 Q4 FY '23 financial results and results presentation uploaded on the stock exchanges and on the company's website.

Fiscal 2023 was an excellent year for the company and perhaps the continuation of a virtuous cycle that we have managed to create, with all elements of our businesses performing well. We have been, in our past calls, indicating that the management has been focusing on the basics of each of our segments; and this has yielded phenomenal results.

Improved cash flow profile backed by sale of some of our non-core assets, better operational efficiencies in the EPC segment, picking up in real estate and GMP segments have helped us in lowering our debt. Reduction of this high-cost debt has allowed us to get decent credit ratings from credible rating agencies like CRISIL and Acuité, and it opens up avenues for the company to carry forward the growth cycle that has started in the year gone by.

Over the last 8 to 10 quarters, you would have seen that we have been guiding for improving quarterly run rate, and this trend continued in Q4 FY '23. From FY '21, our total revenue has almost doubled from Rs 518 Crores toward record high of Rs 1,030 Crores in FY '23. Our profitability has improved significantly from a loss of Rs 40 Crores in FY '21 to the highest ever Rs 100 Crores profit in FY '23. On the balance sheet side, cash conversion cycle has also improved and net debt brought down to a mere Rs 12 Crores as on March 31, 2023.

With an order book at over 3x of FY '23 revenues, a strong balance sheet, high efficiency of all business segments and our overall improved financial position, we believe we are well positioned to continue this growth trajectory in the coming quarters.

Let me take you through these developments in a little bit of detail.

Improved funding position: As you would recollect, we have been informing you that our credit rating has been improving and with Acuité's rating of BBB stable for long term and A3 stable for short-term facilities and CRISIL's rating of BBB stable for long term and A3+ for short-term rating, we had commenced supplying for enhanced BG limits. We are happy to report that we are in the final stages of getting those limits enhanced and this will allow us to significantly increase our order book position and continue the EPC execution run rate. Currently, the company has a working capital of Rs 243 Crores as on FY 2023 and expects to increase the working capital limit by Rs 60 Crores by end of this year. The ratings have also helped us negotiate better interest rates.

EPC execution and order book: During the quarter as well as for the full year, EPC revenue increased by 53% Y-o-Y and 22% Q-o-Q to Rs 203 Crores in Q4 FY '23 and for FY 2023, revenue increased 58% Y-o-Y to Rs 662 Crores. Our EPC order book has been robust throughout the year.

We started the year with an order book of Rs 1,832 Crores and won orders worth approximately Rs 600 Crores in the last 3 months. We had some large order book wins in the year gone by with some marquee projects, such as the tender from Maharashtra State Police department for construction of residential and Jila Karagar at Amethi works of worth about Rs 450 Crores in total and our first-ever redevelopment project of Rs 225 Crores in Santacruz, Mumbai.

We executed orders worth Rs 700 Crores and closed the year with a total order book that stands at Rs 2,172 Crores which forms almost 3x of our FY '23 EPC revenue, providing strong visibility of EPC revenue growth for the next 2-3 years. Of the total orders, external EPC orders are Rs 1,739 Crores. And the balance Rs 388 Crores are from internal orders. Further, almost 78% of the order book is toward government projects, which provides visibility of faster execution and uninterrupted cash flows.

Real estate continues towards growth momentum: Coming to our real estate business, as we have been explaining for some time now, the nature of the book-keeping treatment in terms of Ind AS requirements means that there can be some timing differences between booking of expenses and booking of revenues. Now that a large part of our real estate projects portfolio has completed, we will start seeing positive reflection on the results of our real estate business segment. Our new sales bookings in FY '23 stood at 174,000 Sq. Ft., for a total sales value of Rs 118 Crores.

During FY '23, our real estate revenue stood at Rs 115 Crores, and EBITDA at Rs 39 Crores. Gross margin came in at 49%, while EBITDA margin at 34%. We are hopeful of maintaining the momentum in the real estate segment as we complete projects and have a good pipeline ahead. We are also tying up with realtors based in Pune, Mumbai and Coimbatore.

Lastly, the GMP business which has started showing better performance now. And it has continued to deliver sustainable performance in the past quarter as well as the full year. Revenue of Rs 256 Crores for FY '23 and healthy gross margins of 32%. The EBITDA stood at Rs 25 Crores with an EBITDA margin of 10% in FY '23.

Debt repayment continues: The company has been repaying a significant amount of high-cost debt over the last 2 years, and this has helped the company bring down its finance costs substantially during the year. We are happy to report that, over the past 24 months, we have reduced our gross debt by Rs 79 crores to Rs 135 crores as on March 31, 2023, as against Rs 214 Crores as on March 31, 2021. This, along with the improved cash flow generation, has led to a net debt of only Rs 12 Crores as on March 31, 2023, as against Rs 134 Crores as on March 31, 2021. We will continue to pay our debt as our cash flows keep improving.

Before going through our financial performance, a little update on the overall industry scenario

The Indian budget for FY 23-24 has been showing positive signs for economic outlook; and is expected to grow at 7%, which is a robust growth rate as compared to the other major economies that are actually seeing a slowdown, with an increase in capital expenditure on infrastructure investments by 33% to Rs 10 Lakh Crores for FY 23-24, that significantly boosts the economy. Along with that, the real estate growth is predicted to coincide with the improvement of the domestic economy.

This expansion is backed by the increased activities in the companies' stronger job market and higher income levels, all of which will undoubtedly lead to an increase in real estate demand. Affordable housing is still under focus for the Indian government through various schemes as Housing for All under the PM Awas Yojana by increasing the outlay by 66% to Rs 79,000 Crores. Apart from these initiatives, the government has been building and constructing infrastructure mega projects, including roadways, airports, metros and so on under the PM Awas Yojana. These components will encourage both qualitative and quantitative growth in real estate investments.

Coming to the financial performance of the company in Q4 FY '23

On the overall financial performance with standalone numbers, during Q4 FY '23, the company reported a total income of Rs 251 Crores, as against Rs 153 Crores in Q4 FY '22, a growth of 64% Y-o-Y. In Q4 FY '23, the EBITDA stood at Rs 46 Crores, as against Rs 13 Crores in the corresponding period last year. EBITDA margin was at 18%. We reported net profit of Rs 41 Crores in Q4 FY '23, as against Rs 6 Crores in Q4 FY '22.

On a consolidated basis, in Q4 FY '23, the company reported a total income of Rs 336 Crores, as against Rs 222 Crores in Q4 FY '22, a growth of 51% Y-o-Y. The EBITDA stood at Rs 58 Crores with an EBITDA margin of 17%, against INR24 crores in Q4 FY '22and the net profit of Rs 50 Crores, as against Rs 11 Crores in Q4 FY '22.

To conclude, we would like to reiterate that the company continues to be focused towards building a strong business with focus on execution of our projects, efficiently deploying our capital, increasing our order book while maintaining financial prudence, which will enhance profitability.

With this, we can now open the floor for questions and answers. Thank you.

Moderator: The first question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: My question, on the slide number seven of our presentation. Sir, we have seen the growth in the revenue is around 55% on consolidated basis, whereas the employee cost and other expenses were flat on a Y-o-Y basis. Can you explain why the employee and other expense is flat despite the increase in the business volume -- business growth?

Santosh Sundararajan: This is -- you're checking quarter-to-quarter...

Somnath B. Biswas: Year-on-year.

Manish Ostwal: FY '23 versus FY '22, yearly numbers, not quarter-to-quarter.

Santosh Sundararajan: All right. So yes, as I've been saying for some time, like our employee capital costs, including both our employee costs as well as asset costs, are capable of performing much more than they have been performing. So we really -- we will be now having a little bit of increased employee costs in the coming year, but in the previous year, we maintained our employee costs at those levels. And the growth in top line has happened because the projects finally got executed at the pace that they were to be executed.

Manish Ostwal: The second question, on the, tax expense side. We have a tax expense in the P&L. It's at Rs 3.88 Crores. And in the cash flow statement, it is tax paid is Rs 10.51 Crores. So tax rate is very low, so what should be the normalized tax rate for the FY '24 for -- at a consolidated level, sir?

Santosh Sundararajan: We still -- this year, we had carry forward losses. That's why our tax rate is very low and our PAT is almost the same as our PBT. Going forward, we will then now -- carry forward losses are all extinguished, so from next year onwards, we will be paying taxes at normal corporate rates.

Manish Ostwal: Okay. Sir, on one of the slides, we mentioned that selling of the noncore assets and asset monetization, so can you help us to understand what is the potential value we can generate form that corporate action?

Santosh Sundararajan: So we've been discussing these noncore assets over the last 2 years in all our calls, and we are happy to report we have sort of made progress in most of them. We've even struck a deal for Aurangabad land, which is at an advanced stage, so that will also get executed. That only leaves us with Kaledonia. And at a bigger level, it leaves us with what we can do with GMP; and Thane land, part of Thane land, if we view it that way. So going forward, we'll be focusing on trying to get exit from these if we get the right valuations.

Manish Ostwal: So based on the current market valuation, what is the potential of those assets which -- for balance sheet of Vascon basically?

Santosh Sundararajan: So I wouldn't want to speculate on the valuation. See -- I mean you would know better than me. You can study the balance sheet of GMP. They have been doing well. They have turned around. This year, they've done very well, and they look at growing from year-on-year-on-year. So when and at what valuation we would exit, I wouldn't want to speculate on a call, but if we feel it's good for the company and we're getting the right price, then we will take a call.

Manish Ostwal: Sure, sir. And then lastly, in terms of growth outlook for the core EPC business for the next year, what kind of -- what is your growth guidance for the business of EPC?

Santosh Sundararajan: So EPC will continue to grow. See, this year, of course, we had much higher growth percentage from last year because there was a lag due to COVID and the projects had to get executed. We do not expect the same percentage of growth next year, but we will definitely grow somewhere between 15% to 20% from this year's numbers in top line and bottom line for EPC.

Manish Ostwal: Right, sir. And one last question, on the slightly longer term in our real estate business. So from a 3-5 year perspective, real estate business contribution into the P&L and our strategy to grow that business. How do you see that business contribute at the consolidated level?

Santosh Sundararajan: So real estate business will in proportion -- in the proportion that it brings to our balance sheet, year-on-year from here, you will see the real estate business will grow. So far, for example, this year, it has contributed about Rs 100-odd Crores. The thing with real estate, though, is that revenue recognition on balance sheet only comes in project completion, so it's very difficult to predict on an annual basis, but over the next 3-4 years, we have a lot of projects lined up in real estate. We are lining up even more projects. We have a robust team that is now fully charged up and geared up. And so our focus is definitely there to grow the real estate division parallelly and, hopefully, a little bit faster than even the EPC division.

Manish Ostwal: So can we see a similar growth rate in terms of volume in real estate business also, vis-à-vis the EPC business, in terms…

Santosh Sundararajan: Yes. In fact -- yes, yes, definitely. You can see that growth rate impact probably better, but as I keep saying, in real estate, we'll have to average these things over 3-year periods, not year-on-year, because we do not have enough projects to be completing projects every year. So, basically on the balance sheet you'll see those dips and rises, but if you average out for the next 3-4 years, yes, you will see much more growth than what even EPC see.

Moderator: The next question is from the line of Dhananjay Kumar Mishra from Sunidhi Securities.

Dhananjay K Mishra: Congrats on very strong operating performance. I just wanted to know, I mean, if you could give some color in terms of bid pipeline in EPC segment and which area you are looking in terms of bid pipeline. And you said that Rs 60 Crores limit will increase, so what kind of project you can bid -- in FY '24?

Santosh Sundararajan: Yes. See, we are looking to continue our emphasis on the government sector, but at the same time, we are also now actively looking for projects in AAA-rated private sector as well, so going forward, we have -- we will be looking at both directions. We already bagged about Rs 600 Crores in the last 3 months. Primarily a good portion of it was a 300-odd Crores order from the Pune police housing and also an order from the UP government. Going forward, we will hopefully -- next year, our target is to increase our private sector exposure because, as of now, it's extremely low.

Dhananjay K Mishra: Okay, okay. So I mean -- and which area are you looking? I mean you are also looking in railway segment or this redevelopment railway stations project which is coming up are very big from the government push, so are you looking in those areas as well?

Santosh Sundararajan: Yes, yes. We will look at any kind of building. So even railway stations do qualify as buildings for us, so we will be participating. There are many tenders. There are many departments and there are a huge number of tenders that get floated, so we need to pick and choose at any point of time given our limitations of resources, our limitations of guarantees and bandwidth, but yes, railway stations are definitely on our…

Dhananjay K Mishra: Okay. And the 60 crores limit, when do you expect to become...

Santosh Sundararajan: Hopefully, before our next call.

Dhananjay K Mishra: Okay, okay. And the second question, with respect to real estate. So, if you could give some number in terms of what was the total delivery in this financial year for which we have booked about 140 crores revenue -- and recognized 140 Crores revenue. And what is the delivery schedule for the FY '24? Because I -- you said that if going -- this year also, delivery will be very good and the P&L number will look good. So what is the delivery schedule in FY '24?

Santosh Sundararajan: No. So in FY '23, we had completions from about 3 or 4 real estate projects. And that is why those revenues have reflected on the balance sheet. And the bottom lines are also reflecting. Going forward, in FY '24, we do not foresee us completing any bigger projects because most of them have just started, including Coimbatore and Kharadi. And so these projects will not be completed in the coming year. They will get completed in the year after that, so again, a good chunk of revenue recognition, we foresee to be happening in FY '25 and not in FY '24 for real estate.

Dhananjay K Mishra: Okay, so FY '25 will be good in terms of the P&L, right...

Santosh Sundararajan: FY '24 for real estate would be a little bit...

Dhananjay K Mishra: '25.

Santosh Sundararajan: Yes, '25 will be good, yes.

Dhananjay K Mishra: Okay. So FY '24 will be slightly softer or maybe some decline in terms of...

Santosh Sundararajan: Yes. That's what we foresee, yes.

Dhananjay K Mishra: And in terms of these 5 projects we will have in terms of launch pipeline. So do you expect to launch at least 2 or 3 of them in FY '24?

Santosh Sundararajan: Yes. We expect to launch at least 3 projects in FY '24...

Dhananjay K Mishra: Which one, this Powai, Kharadi and...

Santosh Sundararajan: Powai, Kharadi. And Santacruz, we'll also be launching. And in fact, we are hopeful. We might even launch Banner before the end of the year.

Moderator: The next question is from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: Congrats on good set of results.

Santosh Sundararajan: Thank you.

Himanshu Upadhyay: I was going through your historical calls also. It's the question is like this: Last time, the big issue was, when inflation came, cost of capital increased and projects started getting delayed. And higher input and labour costs made a lot of projects unprofitable for us. And some got even stuck, okay? How do you see this type of risk this time? And how do you minimize such a risk in orders which you may be taking now or your order book what you have? This was a big issue in FY '12, '13 and '14.

Santosh Sundararajan: Yes, that's right. So I mean, see, from FY '12, '13, '14, we've learned quite a few lessons. So we have a lot of smaller things that we do within the company's discipline that we follow to minimize our risks or our exposures or to ensure that the amount of money that is lying outside with our client is minimized. This is to do with the kind of clients we pick, the kind of projects we take, the terms at -- which we take for different clients.

For government sector, of course, you don't get -- negotiate terms. We cannot just choose which department we want to work with. In the private sector, we have strongly been negotiating terms in our favour and ensuring that we do not have risk lying on the other side of the table. Also, having said that, to do with inflation, there is only so much we can do in costing. If we can be -- cost for a project, we do provide for a little bit of inflation over the 2-3 years project period.

You must note, however, that most of our key materials are generally covered by the contract either as a pass-through base rate or through PWD indexations. So therefore, we get -- the inflation on those items are covered for us. It's only very few items that do not get covered. We take a little bit of a buffer for those when we cost and bag the project, but yes, if something really unprecedented happens like it happened 3-4 years ago. In COVID, for example, the prices shot through the roof within a 6-8 months period. That is when we feel the heat, but otherwise, generally the way our contracts are structured, we should not be feeling the burden of these inflations.

Himanshu Upadhyay: And so if I should understand that the cash -- the critical difference between us today and in FY '13, '14 will be the cash lying in the -- or uncollected for the work we have done is much smaller in what used to be in that period of time. And we would have slightly higher building inflation in most of the projects.

Santosh Sundararajan: Yes; and more importantly, the terms we are having with each of the clients we choose. For example, private clients, bank guarantees or the assets that have to be funded for their projects, we get them to fund it. We do not put up performance guarantees. Also for example, earlier -- I mean the small things since you brought up the topic. There were -- we used to have our advanced guaranteed line with the client. While we recovered the advance, there was still a guaranteed line with him for even portions of the recovered advance. So now we give these guarantees in much smaller portions and keep taking back our guarantees for the amount recovered. So these are small housekeeping issues, which the lessons have been learned and we are very careful on all these accounts.

Himanshu Upadhyay: And secondly, I mean, on the -- GMP to the subsidiaries that we want to sell, but what will be the priorities? And what is the business looking like in FY '24, '25? Because generally, valuation will depend on future prospects of the business, okay, so...

Santosh Sundararajan: Yes. If you see, in GMP, over the last 2-3 years, they have also -- just like our EPC division, the growth has stabilized. They have come out of whatever issues we had. And the bottom line this time has also -- the percentage EBITDA has stabilized. We look -- going forward now, it is a matter of growing. And I think that we -- they are also predicting -- that division is also predicting to grow at -- same like our EPC division, to grow at about 15%-20% year-on-year for the next 2-3 years. And the bottom line percentage would only slightly improve with scale.

Himanshu Upadhyay: Okay, okay. And the orders, what they are taking, will it be significantly higher? What is -- would be at same time last year? Or anything you can give on the business traction on that company?

Santosh Sundararajan: So, they have -- if they are to grow at 15%-20% year-on-year, obviously their order intake would also have to increase. See, for GMP, their orders are normally extinguished in a much shorter period than, say, for EPC. So, in EPC, while we say we start the year with X and then we expect to do X by 3, for GMP it's totally different because their orders are -- they do not last such a long period. So it's seeing their order book at a particular point of time would not help. Seeing what exactly they bagged over a year would help us assess. And yes, definitely they'll be bagging more orders going forward to keep the growth.

Somnath B. Biswas: And Himanshu, GMP is currently having order book is more than Rs 200 Crores lying with them. So this is current condition, so -- as it's been said that the order keeps on coming every month every quarter. So GMP's growth is -- significant growth is expected next year also, is continued.

Himanshu Upadhyay: Okay. And lastly, as a company, in the top management -- the debt has been reduced to minimum, okay? So one of the priority targets has been achieved, okay, but let us say, for next 3 years, okay. What will be the top 3 priorities or targets you want to achieve? One is done, but now if we take a clean slate, how do you model the company and the targets you will be -- are setting for next 3 years, though?

Santosh Sundararajan: So, for the EPC business, see, we do not want -- so it will -- there is 3 different businesses, so each target and each criteria will be different. On the EPC side, we want to increase our working capital limits primarily for the non-fund-based. So our non-fund exposure will increase because there is no choice. It -- there is no way you can have growth without increasing your non-fund risks. So those will continue to increase. However, we will keep a cap on our CC limit and use it very prudently.

Again it's a business call that sometimes we have advances available from clients at reasonable rates which help us tie along. At some times, it is better to use a little bit of your CC limit to keep the projects running, so we expect the CC limit to go up but -- or not too much, very marginally. On the real estate side, we will be funding our projects on a case-to-case project-to-project basis, so definitely we will be taking the construction finance or some nominal debt in the beginning of the project, if needed, case-to-case basis at the project level.

Himanshu Upadhyay: Okay, okay...

Santosh Sundararajan: See. Going forward, for this year, we would want to focus that on our -- improving our rating also by a notch or two and then renegotiating our terms with the banking consortium so that our terms are much more efficient. As of now, we still feel we are not getting the best of terms. We haven't backed performance for a while. Now that we have performance on our side, we would want to negotiate our terms with the bank this year.

Moderator: The next question is from the line of Rishith Shah from Nuvama Wealth.

Rishith Shah: Congrats for a great set of numbers. So firstly, continuing from what the previous participants already asked: So on the EPC side, when we said we have some filters while bidding for an order or similar. So, can you quantify what are the filters? Is it some higher set limit or a target margin that we see while bidding for an order?

Santosh Sundararajan: Yes. So see, the first thing is we continuously look for a design-and-build EPC mode project. So even the governments are coming up with this mode of contracting. The private sector can be receptive to it if we give them a competitive offer. What this mode of contracting does is it gives us some competitive advantage. We have a huge amount of in-house strength in architecture, engineering. And we are very confident to use these strengths and add design efficiencies, which creates a win-win situation for us and the client.

And that sort of covers a couple of basis points of risk for other things that an item rate contract doesn't cover. So that is one thing which we'll keep doing as a focus point to increase our margins a little bit. The second thing is, as I said, it depends on the client. If we are now dealing with a, I mean, non-AAA private client, if I may say so, then we are very careful with the terms which we negotiate with them. So we do not put up our

-- performance guarantees even if it means at the end we don't bag the order for that purpose.

We are very careful, so we do not put up performance guarantees. We do not fund the capital acquisition in terms of aluminium shuttering or huge amount of equipment that needs to be funded for the project from our pockets, so we ensure that it is funded by the clients. It could be recovered from us over the project period, but the initial funding, we put it on the client side.

So we -- as I said, in terms of retention bank guarantees or other bank guarantees, we give them in smaller pieces so that we can keep pulling out bank guarantees as and when they are due to us rather than leaving a big chunk with the client. And yes, on -- we ensure that our -- see, there's only so much you can do in terms of a rate because there is competition in the market. If I say I want 20% margin, I may not be in the game at all, so we do -- but at the same time, on the private sector, we do not cut rate to a point that it's below 15% gross profits or anything because we would rather than work on the government sector. There's enough projects, so we are not extremely aggressive or desperate, if I may say so, to bag projects from the private sector if our terms are not met.

Rishith Shah: Got it, got it. Makes sense. And secondly: So do we -- and kind of I know the concentration right now is on the building side or the civil side, so any plans to, I mean, kind of diversify into other segments?

Santosh Sundararajan: As of now, in the immediate short term, no. I think there's enough work out there in the building. There are so many departments, so many kinds of buildings. And the private sector is again opening up. There is -- so there's a lot of work in the building sector across the country, so as of now, no active plan to deliberately diversify into non-building.

Rishith Shah: Right, great. And thirdly, on the real estate side. So basically, we have a good-enough pipeline on hand right now, but I just wanted to understand the thought process in selecting a particular project or entering a particular area. I mean, how do you go about that? So what is the strategy behind selecting a particular project or a particular target audience or target city or the location that you select?

Santosh Sundararajan: So as of now, our cities that we are working in are only Pune, Mumbai and Coimbatore. So in the immediate term, we do not have any intention to expand geographically and going into other cities. We'll be focusing on these 3 cities, where we've already established a brand name and we've delivered projects and we have recognition and strength.

In Bombay, given the type of our company, we feel what's best suited for us is niche redevelopment projects like the one in Santacruz that we have bagged, so we will be looking for similar projects going forward. Those projects might be small in terms of square footage, but they'll be visible. They will be reasonable in terms of top line, bottom line for us. In Pune, we look for joint -- in Pune and in Coimbatore, we look for joint ventures.

Again, we are not now looking for huge parcels like we used to 10, 12 years ago, 50-acre township projects. We are now looking for not more than 4-5 acres of land; not more than 1 million square feet in a project that we can deliver over a 3--4-year period and move on. So that is our strategy as of now to do with -- and as I said, we are not looking at land banking. We will be looking at joint ventures. So yes, that is the strategy for real estate.

Moderator: The next question is from the line of Kunal Jain from Jain Securities. Please go ahead.

Kunal Jain: Congratulations on a good set of numbers, sir. I just had a couple of questions. Firstly, sir, I just wanted to understand. In the presentation, we had mentioned, for Forest County, that collections have been Rs 56 crores, but no revenue has been recognized. If you could you -- explain, sir. I mean, how does this work, the revenue recognition for Forest County?

Santosh Sundararajan: So this Forest County project comes through a company called Ajanta, where we are, I think, 50% stakeholders. So that is AOP. And so what happens is they are not able to -- we only get profit share that is recognized on our balance sheet. We do not get to recognize the revenue from there onto our balance sheet.

Kunal Jain: Okay And sir, second question was regarding Ajanta Enterprises, sir. And you have mentioned that you've got a JV partner -- yes, you've got a JV partner, and hence there has been some agreement for sale of FSI, so can we just talk about that, sir?

Santosh Sundararajan: Which company are you talking about?

Kunal Jain: Ajanta, Ajanta Enterprises. I think you had mentioned one of the JV ventures has entered in some sale of FSI through some party.

Santosh Sundararajan: No. Sale -- so we sold -- last year, we did sell a portion of the land that was there in Ajanta. That was last year. And we did sell some TDR this year. It's not a joint venture. It is actually a profit-sharing partnership that we have in Ajanta where we have 50%. And there are 2 other partners in that company who hold the balance 50% and, yes -- but no other sale of assets in that -- I mean no other sale of land in that entity. There's a little bit more parcel that is available there which we intend to develop going forward.

Kunal Jain: Okay, okay. Sir, one last question, on Vascon Developers Private Limited. I think we have changed that to LLC. And I think our stake has also come down, so any idea, if you can speak about, who is the new partner and why has our stake come down? I think we've lost some stake and we've reduced to 35%, I think.

Santosh Sundararajan: Yes. So there, that is -- see, the land in -- we had a land in Powai and now we've taken in -- so we want -- we intend to develop that land rather than try and sell it off, so we've taken in an equity partner on that project so that we have the funds available to launch. There's a huge amount of expenditure involved in launching that project, being in Mumbai. There is premium FSI costs, TDR costs and launch costs which are quite high.

Now considering our strategy, we do not want to be investing our cash flows either -- so we look at -- up to approval, we look at it as land cost, so we do not want to be investing our cash flows on land acquisition in that sense further, nor do we want to be borrowing heavily to fund these. Rather than an initial amount of construction finance in our real estate projects which we will liquidate, we'll pay off quickly within a year or two.

We do not want to be taking long-term borrowings or medium-term borrowings on real estate projects, so we thought the best strategy is to get in an equity partner, dilute our stake. And so that's why you see our shareholding has come down.

Kunal Jain: Sir, what is the kind of amount that the equity partner will be pouring in, sir?

Santosh Sundararajan: I'm not -- so it -- I think we'll give you offline the details of this deal because there was a valuation done. And then according to the valuation of the land plus the premium, we got an equity partner come in, check the exact numbers, I think, we'll touch base offline after the call. We'll be able to share this to you on e-mail.

Kunal Jain: Got it, got it, sir. And sir, last question is what kind of realization, sir, approximately you will be looking at for the Aurangabad land, just to understand how does our balance sheet change.

Santosh Sundararajan: Yes. So that is about Rs 26 crores Rs 28 crores we expect from the sale of Aurangabad land, but see, that is Aurangabad land is pledged with SBI for our consortium banking limits. So we've got NOC from them to sell the land. And then the proceeds will be kept as an FD with the bank, at least in the short term till we find alternate collateral.

Moderator: The next question is from the line of Hiten Boricha from Sequent Investments.

Hiten Boricha: Sir, my first question is on the real estate side. So you mentioned majority of our revenue from the real estates that -- will come in FY '25. So you mentioned something about de-growth in this segment...

Santosh Sundararajan: No. So it is not really a de-growth. So I would like you to understand that our real estate segment is only growing. We are launching more and more projects now going forward, but the thing with real estate is it's an accounting issue to do with revenue recognition Ind AS. So, we've launched -- for example, we've launched 2 projects already which we expect to finish, but it's not finished before March '24 and they will not get to completion. And therefore, while there will be significant expenditure, there will be significant sales.

There will be significant collections in all of these projects. We will not get to recognize those revenues. They will lie as inventory as of March 2024. And then before March 2025, we expect to finish these projects and get the completions. And then they will be recognized as revenue, so what is going to happen for us in real estate over the next 4-5 years is that we will see a little bit of ups and downs year-on-year, but on an average I can tell you that the real estate is set to grow much more than what -- over the next 4-year period, I can predict, on an average, you can expect much, much more than what we have delivered this year on real estate.

Hiten Boricha: Okay, when you say we recognize the revenue at the time of completion of projects -- but we recognize the sales -- sorry, expenses at the time of expenses are incurred. That's the reason our margins are so -- sorry.

Santosh Sundararajan: Yes, 2 kinds of expenses. See, certain expenses are inventorized, so they do not hit the books as expenses. They remain as inventory. Direct expenses remain as inventory. Indirect expenses, however, salaries, marketing, overhead, all of those come as expenses.

Hiten Boricha: So now sir, when we are looking only for JV and not land buying and anything. We are looking for JV and some small projects in the real estate, so do we have any kind of IRR or the margins expectation, I am talking about the medium term, at least if you can guide what will be a medium-term IRR or ROCE in the real estate sector, or the margins. Because when I, when we have a look at the margins in this particular segment, the margins, it's so like volatile. I just want to understand how it's going to work in medium term, let's say.

Santosh Sundararajan: So again -- yes. So, see on the EPC side, we hope to be getting gross profits in the range of 15%-16%, which will eventually translate -- I mean our target is a dream to achieve a 10% PBT on the EPC business. We are at 8% currently. We hope we can bring that up, but even 8% is reasonably healthy given how the market performs. So in

EPC, our gross profits margin from a project would be in the range of 15% in general. On the same calculation matters on the real estate side, our gross profit expectations are normally in the range of 25%-30%.

So, I keep mentioning that we call it glorified EPC because it is still finally execution and design that is in our side of the story. The land and the finance -- or the share of land and finance could be taken by other partners, so what is left in the whole game will be what the premium that -- a developer in terms of bringing his brand, sales, marketing, design and execution. That is what we will command. And so that will be definitely more than EPC, so we expect -- generally our calculations show that we'll be around in the range of 25%-30%.

Hiten Boricha: Okay, okay. And sir, my last question is on the BMS segment. So, we have seen a very good growth, Y-o-Y growth, of Rs 200 Crores to Rs 250 Crores, so can you shed some light on that, what kind of growth we are looking in this segment? And any color on margins?

Santosh Sundararajan: Yes. So, I have mentioned just now that -- so GMP is now clear of all its legacy troubles and issues. And it is now looking robust, ready to grow at the same pace, so we are expecting another 15%-20% growth in top line in the coming year. And the bottom line has now stabilized. The impact: With scale, we expect the bottom line would also, in fact, increase by a percentage point or 2 at the EBITDA level.

Moderator: The next question is from the line of Rishikesh Oza from Robo Capital.

Rishikesh Oza: Sir, my first question is regarding the ongoing and the completed projects. What is the pending sales value in the ongoing and completed projects?

Santosh Sundararajan: For EPC...

Rishikesh Oza: No, no, for real estate.

Santosh Sundararajan: Rs 170 Crores on the real estate projects.

Rishikesh Oza: Okay. And also, for the sales that we have done, what is the pending collection on that?

Santosh Sundararajan: So that would -- I mean in -- generally in real estate -- how much is -- there would be no pending -- see. I mean 100-odd Crores is to be collected from units already sold. However, they're not due -- the collection is not due at this point of time. Generally, our real estate division collections are online, so when there's -- when it's due, generally there's not much of a lag in terms of collections.

Rishikesh Oza: Okay, okay, okay. And sir, regarding you said you will be launching like 3- 4 projects in FY '24. So, what kind of average sales velocity do you look for?

Santosh Sundararajan: So, our intention is to finish selling off at least 50% of the projects when we launch these sort of in principle, achieve that number with our Kharadi project as well as our Coimbatore project at this point of time. That sort of gives us the confidence that construction is not going to be an issue and the construction finance or -- that we borrow is not going to be the only source of funding. In fact, that gives us visibility that we'll be able to pay back that construction finance debt ASAP.

And then after that, again, the second plan is that, by the time we finish the projects -- before that, we definitely want to be finished with the balance sales. So we do not want to be ending up with a completed project and inventory in hand. So based on this, we gave the pricing at this point of time which will give us the desired flow of sales.

Rishikesh Oza: Okay, but the completion period would be like what will -- you complete the project. Would it be like 3-4 years?

Santosh Sundararajan: Two years, typically 2.5 years. Once we have launched and started -- I mean real estate takes more than a year to launch because plan, design approval, all of that, but sales only happen -- through RERA, your sales can only happen once you've done all of that and broken ground. So, from the time of breaking ground to finishing a building, typically 2 to 2.5 months.

Rishikesh Oza: Okay, okay. And also, sir, regarding the projects that we have launched and that we have in our inventory, what kind of EBITDA margins do we look to achieve there?

Santosh Sundararajan: So, as I said, the gross profit in real estate -- we expect to get -- all these projects are in the range of 25%-30%. In EPC, it's in the range of 15%. I think EBITDA would then depend on the top line that we achieve for the year. Our EBITDA this year is, what -- no, no, overall EBITDA company level.

Somnath B. Biswas: 10...

Santosh Sundararajan: 10%, 12% at the company level, I think. Hopefully, we could improve on that a little bit.

Rishikesh Oza: Okay, but what will be that EBITDA margins for real estate visions? Like not the reported basis...

Santosh Sundararajan: As of now, it's 34%.

Rishikesh Oza: Okay, but actually I'm not talking about a reported basis but basically, on the projects that we are going to launch, what kind of EBITDA margins, like, we look to achieve there on a cash flow basis.

Santosh Sundararajan: About 30%.

Rishikesh Oza: About 30%, right?

Santosh Sundararajan: Yes.

Moderator: The next question is from the line of Rikesh Parikh from Rockstud Capital LLP.

Rikesh Parikh: Congratulation on maintaining -- getting this debt level to the Rs 12 Crores. Sir, my first question is around the debt level. I mean we have reduced the debt from around -- net debt around -- from Rs 134 Crores to Rs 12 Crores, so can you help me with the bridge mix from where this -- it has been reduced? I mean its equity raise or monetization and cash flow.

Santosh Sundararajan: Yes. It's a combination of all three. We did a preferential in this period, so that helped us reduce about Rs 40-odd Crores of debt. And then the balance has primarily been through cash from operations. We hardly had any one-off sales, nothing much Rs 7 - 8 Crores of one sale that we did. The balance has been cash inflow from operations.

Rikesh Parikh: And no monetization in last 2 years, if...

Santosh Sundararajan: The last 2 years, only that one Bavdhan land, which was nothing much, not more than 10 crores.

Rikesh Parikh: Okay, yes. That's helpful. Second, what is your current rate of interest for that?

Santosh Sundararajan: Current rate is 10% -11%. Cost to company as of now is 11%.

Rikesh Parikh: 11%, yes. Secondly, on a monetization's front, we have registered Aurangabad land and GMP Technical. So, in Aurangabad, what is the time line and the value we are negotiating assets?

Santosh Sundararajan: Aurangabad land will fetch us about Rs 26 Crores to Rs 28 Crores. It is scheduled to happen in the next month or 2 itself. We've got the NOC from the bank as well. And as I said that land is pledged with SBI for the consortium limits, so those proceeds of the sale will also go to SBI in the form of an FD as a pledge for the consortium limits till we find any alternative collateral.

Rikesh Parikh: Sure. And for GMP Technical which -- have you got any bid or anything else, sir?

Santosh Sundararajan: No. We -- I mean, GMP, we have not yet started actively looking. I mean we -- there are mandates. We will -- we're not desperate or looking very actively with a target in mind to sell it. We will look at valuations as and when we get offers, and if we feel something is good, then we will take it forward.

Rikesh Parikh: And operationally, has GMP turned-around, I mean, top line, EBITDA margins or something like that?

Santosh Sundararajan: Yes. GMP is now very healthy. It passed all its troubled times, and last 2 years, it's done very well. This year, in fact, it has grown by 20%-25% in top line. And the bottom line is about Rs 16 Crores this year. And next year -- they expect to grow on both top line and bottom line from here on. So, I think we took a target last 3-4 years to stabilize the business, to handhold it and ride it out of its troubled waters and ensure that it is looking forward towards growth. We have achieved that. It is now definitely growing well. It is performing well and it is giving the expected margins in the sector. So, from there we can look at suitors. As I said, if we get the right valuation or what we feel is a good price for Vascon to exit, we will take a call.

Rikesh Parikh: And my last question now, for going forward. What will be the focus in EPC, real estate or -- and how we should be looking at growth in both the segment as well.

Santosh Sundararajan: Yes. So we have only EPC and real estate. Everything else, for the last 5-6 years, we've classified as non-core, including GMP. So we view ourselves only experts in 2 fields, one thing especially as I keep saying glorified contracting. So we are people who know how to design, build and execute. And we have a brand recognition that helps us sell and market our projects, so we will be focusing only on these two wings. The EPC will continue to look for order booking year-on-year, augmentation of their banking facilities as we grow. And so it's a cyclical thing. We grow our banking limits then we take more orders.

We grow further. We keep going back to the banks. So that process will continue. And hopefully, from here, the EPC story is to keep delivering similar or slightly better PBTs while they continue to grow at booking 20%-25% year-on-year in terms of their top lines. For real estate, in the initial phase -- we've been low for a while. In the initial phase, we expect a higher growth more than 15%-20% because we want to catch up for a bit. And then it will also stabilize, but in the interim -- so in real estate, our strategy is always to do joint ventures, not to put capital on land. And look at it as a glorified EPC where our margins will be higher than third-party EPC.

So, these are two engines. With these simple focuses in mind, we will continue to grow. Real estate, geographically, we'll not go beyond Pune, Mumbai and Coimbatore as of now. And within Mumbai, it will not be big projects which are beyond the capacity of the company. It will be niche redevelopment projects and in Pune and Coimbatore, there will be joint ventures in prime areas and good locations, not really big projects on the outskirts. These are the guidelines under which we intend to grow.

Moderator: The next question is from the line of Manish Shah, an Individual Investor. Please go ahead.

Manish Shah: Sir, what should be the benchmark for this GMP Technical valuation, sir? At present -- suppose we take a turnover, so what should be -- it should be 2x-3x.

Santosh Sundararajan: No. I don't know actually. I mean, see, I think these companies generally would get multiplied -- valued as multiple of EBITDAs. We are yet to get an understanding of how exactly it could get valued in terms of either multiple of top line or EBITDA, so yes, I wouldn't want to speculate on...

Manish Shah: Suppose -- if you take the EBITDA, what should be the approximate?

Somnath B. Biswas: 8x to 10x...

Santosh Sundararajan: Maybe 10x-12x. I don't know actually. We expect EPCs generally get valued like that, so considering it's similar to EPC, maybe in that range.

Manish Shah: 8x to 10x...

Santosh Sundararajan: Yes, same, 10x-12x. I don't know. Actually, very honestly, I wouldn't want to stick my neck out and give a number because we haven't got offers from the market to gauge what -- there might be other premiums. There might be other -- since it's a niche company, there could be other reasons why foreign companies coming in would want to take a stake in it, so these multiples could go up. So we will know as we now approach the market going forward.

Manish Shah: And another question is about, sir, considering our size and negligible or no debt, I think we should double our company in next 3.5 years.

Santosh Sundararajan: See, we do expect -- 15%-20% growth is what I would give as a guideline over the next 3, 4 years. That is definitely visible. We do not see any impediments to stop that kind of a trajectory, if not more; also, the bottom line on an average since we have the evolution of bottom line from real estate, which will be a bit bravery year-on-year due to Ind AS. So again -- but on an average over the next 4 years, we should be doing more than Rs 100 Crores as a bottom line; and growing Rs 1,000 Crores into 15%-20% Y-o-Y. That's a target we can take. They might not exactly double, but yes, hopefully, if we can, that will be even better.

Manish Shah: And sir, another thing is that, seeing the -- all the financials, sir, everything, I think the margin should go up from here a little bit.

Santosh Sundararajan: Yes. That's definitely the intention. With scale, with size, we do hope that the margin goes up a little bit. Having said that, in EPC, the margins for even big companies are generally tight and single digit. As you grow in EPC, what also happens is, your stickiness of projects, you might -- when we are small, we can be very choosy and pick high-margin projects only. As we have a target of top line, sometimes you have to let go of a percentage point or 2 in your margins to bag a project. So that sort of levels you down, but having said that, yes, with scale, with the increase in top line, we -- definitely our endeavour is to keep the focus on the bottom line and increase it a bit.

Manish Shah: Sir, any new development on the Thane land, sir?

Santosh Sundararajan: No, no update on the Thane land, yes, nothing to share.

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

Santosh Sundararajan: Thank you, everyone, for the enthusiastic participation. And if there are any further queries, feel free to write to us through Stellar, and we will get back to you. And I'll see you again next quarter. Thank you.

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