"Vascon Engineers Limited
Q2 & H1 FY '24 Earnings Conference Call"
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MODERATOR: **MR. VISHAL MEHTA – STELLAR IR**

Moderator: Ladies and gentlemen, good day, and welcome to Vascon Engineers Limited Q2 and H1 FY '24 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 any 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 second quarter and half year ended September 30, 2023. Today joining with me on the call is Mr. Somnath Biswas, our CFO; and our Investor Relations team, Stellar Investor Relations.

I believe you would have gone through the Q2 H1 FY '24 financial results and results presentations uploaded on the stock exchanges and on the company's website.

During the First Half of FY 2024, company saw a steady momentum for the overall business. Our EPC witnessed a flattish revenue growth. A few of the EPC projects have been completed during the quarter, and we expect pick-up in growth momentum for Q3 FY '24 onwards, as the company has won new orders amounting to Rs 1,034 Crores in Q2 FY '24.

In terms of profitability. Stand-alone EBITDA margin has been maintained at a healthy 14% in Q2 FY '24. Our outlook for the EPC segment remained strong backed by the strong order book of Rs 2,854 Crores. With an order book at over 4.3x of FY '23 revenue, a strong balance sheet, high efficiency of all business segments and our overall improved financial position extended BG limits and having received new orders during the quarter, we believe we are well positioned to continue this growth trajectory in the coming quarters.

Let me take a few minutes to restate our recent development, which had built a strong foundation for the company to grow on.

Improved Credit Rating

In July 2023, CRISIL upgraded with credit rating to CRISIL BBB+ from BBB for long-term facilities and CRISIL A2 from A3+ for short-term facilities and with the upgraded rating, our BG limit has been increased during the quarter, which allows us to grow our order book position and continue the EPC execution run rate.

The company has received the sanction letter from Karnataka Bank for Rs 50 Crores working capital limits and expect to increase the working capital limit to Rs 480 Crores by the end of FY '24, from Rs 303 Crores currently. The ratings have also helped us negotiate better interest rates.

EPC execution and order book

During the quarter, EPC revenue increased marginally by 1% Year-on-Year to Rs 157 Crores in Q2 FY '24. A few of our EPC projects got completed during the quarter. However, we have received some new orders whose execution will kick-start and we expect Q3 FY '24 onwards, the execution run rate to regain its growth momentum.

A quick update on our order book position. We started the year with an order book of Rs 2,172 Crores, executed order book worth Rs 302 Crores in H1 FY '24. And we have won new orders worth Rs 1,034 Crores in H2 FY '24.

Recently released orders include a letter of acceptance of Rs 513 Crores for construction of Lohia Medical College and Hospital, including hospital and residential building at Supaul in Bihar. We've also received an LOI for Rs 222 Crores from Bridge and Roof Company India, which is a Government of India enterprise, for construction of government medical college at Kanker District, Chhattisgarh.

We also received an LOI for Rs 299 Crores from the Jharkhand State Building Construction Corporation for construction of the remaining work of medical college and upgradation of district hospital at Koderma.

Our total order book as on 30, September '23 stands at Rs 2,854 Crores, which forms almost 4.3x FY '23 revenues, providing strong visibility of EPC revenue growth for the next two years to three years. Of the total orders, external EPC orders are Rs 2,476 Crores and the balance Rs 378 Crores from internal order. Further, almost 87% of the order book is towards 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 mentioned earlier, the nature of the bookkeeping treatments in terms of Ind AS requirement means there can be some timing differences between booking of expenses and booking of revenues. Now that a large part of our real estate project portfolio is completed, we will start seeing a positive reflection on the results from our real estate business segment from next year onwards.

New sales booking in H1 FY '24 stood at 84,821 Sq. Ft. area for a total sales value of Rs 74 Crores. During H1 FY '24, our real estate revenue stood at Rs 78 Crores and an EBITDA of Rs 26 Crores. Gross margin came in at 45%, while EBITDA margin was 34% in H1 FY '24. We are hopeful for maintaining the momentum and real estate segment, considering the good pipeline ahead. We are also tying up with realtors based in Pune, Mumbai and Coimbatore.

In our Real Estate segment

we have already launched one project in FY '24, and we are currently in the process of launching two more projects this year. However, current year declining real estate revenue will be compensated by EPC sales for the year so that the total top line will be maintained compared to the previous year.

Lastly, the GMP businesses has started looking healthier and performance now, and it has continued to deliver sustainable performance in the past quarter as well. Revenue of Rs 114 Crores for H1 FY '24 and healthy gross margins of 32% with an EBITDA at Rs 8 Crores with 7% margin in H1 FY '24.

Debt position

The company has been repaying a significant amount of the high-cost debt over the last 30 months, and this has helped the company bring down its finance costs substantially during the year. We are happy to report that over the past 30 months, we have reduced our total gross debt by Rs 38 Crores to Rs 177 Crores as on September 30, 2023, as against Rs 214 Crores as on March 31, 2021.

However, during the half year, gross debt has increased by Rs 40 Crores, majorly on account of entering into new joint ventures for real estate as well as certain amounts being utilized as bid bond money / EMD for new orders recently won by the company, along with EMD deposit for bidding new projects. This has led to increase in our net debt to Rs 73 Crores as on September 30, 2023.

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

As per the industry process, India is becoming a favoured destination for foreign direct investments in the infrastructure sector and Government of India has provided supportive measures. Through the flagship events such as National Infrastructure Pipeline, Gati Shakti, SagarMala, Bharatmala, Udaan and Maritime India Vision 2030, among others, have created a lot of opportunities in the infrastructure sector. It also reflects the potential revenue on investments in India rapidly growing infrastructure industry.

As per the CRISIL, India is expected to double its infrastructure investment in the upcoming seven fiscal years ahead of 2030 to reach over Rs 143 lakh Crores compared to the approximately Rs 67 lakh Crores invested between the fiscal year 2017 and 2023. This is a significant increase. An outstanding amount of this investment almost Rs 37 lakh Crores is designated for greenfield project. This is a five-fold increase over the last seven fiscal years.

This is underlying with an order to sustain India's strong infrastructure investment merited over the long run, consistent policies and strong regulatory measures are required. Larger projects and more mega scale initiatives will characterize India's infrastructure development of the future, necessitating the active participation of all stakeholders.

In the recent reports, the real estate consultancies reiterated that India's residential market has displayed a robust growth trajectory in the real estate market and seen a 12% Year-on-Year growth, an increase in demand for residential units. With the mid- and premium categories reflecting a majority of revenue and affordable category witnessing of all-in volume, the fundamental structure of the industry has undergone a significant alteration.

Coming to the financial performance of the company in Q2 FY '24

On the overall financial performance, let me start with the stand-alone numbers. During Q2 FY '24, the company reported a total income of Rs 176 Crores as against RS183 Crores in Q2 FY '23, we saw a de-growth of 3% year-on-year. In Q2 FY '24, EBITDA stood at Rs 25 Crores as against Rs 26 Crores with a marginal de-growth of 4% in the corresponding period last year. EBITDA margin was at 14%, and we reported a net profit of Rs 20 Crores in Q2 FY '24 as against Rs 22 Crores in Q2 FY '23.

On a consolidated basis in Q2 FY '24, the company reported total income of Rs 235 Crores as against Rs 235 Crores in Q2 FY '23, a flattish growth Year-on-Year. The EBITDA stood at Rs 29 Crores with EBITDA margin of 12% against Rs 29 Crores in Q2 FY '23, and the net profit of Rs 21 Crores as against Rs 23 Crores in Q2 FY '23.

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 all enhance profitability.

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

Moderator: Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Mr. Himanshu Upadhyay from O3 Portfolio Management Services. Please go ahead.

Himanshu Upadhyay: Congrats on a good set of numbers. My first question was, in the previous quarter, we said that GMP is expected to grow by 10% to 15% in top line and 20% in bottom line in FY '24. But in first half, we have not seen any growth. We also said that there is a sufficient order book and hence, we expect good growth. Can you elaborate what happened there in the first half? And why it is not -- the growth which we expected is not happening?

Somnath Biswas: See, basically, if you look at the Year-on-Year basis, definitely GMP will have a growth of 15%, 20% growth, what we have already projected and that is very much on the cards, but Q2 is always a subdued quarter for the GMP also, which previously also observed for couple of times. But currently, GMP is having a significant order book. They are having almost Rs 250 Crores order books in their hand. And it is mostly exceeding the period of six to nine months period.

So we are not seeing any major challenge in terms of Q3 and Q4 to get that kind of growth what we have projected. So we are very much on the track both on the top line and bottom line.

Himanshu Upadhyay: And one more thing. We have seen the loans from NBFCs have again increased by Rs50 Crores something, okay? So should we assume that all these are for residential land payment in the residential business, or?

Somnath Biswas: It has been actually, if you have gone through the presentation given by Dr. Santosh, it is clearly mentioned that the money has been utilized for the growth capital for both real estate and EPC. We entered into couple of joint ventures for real estate and already bagged Rs 1,000 Crores order. For that, we have increased some of the working capital as well as this bid bond money. All this thing has been utilized. So this enhancement of the debt is majorly due to the growth what we are moving ahead.

Himanshu Upadhyay: For working capital, we can get the finance from banks, so...

Somnath Biswas: See, for that, we need bank assessment which is underway. So whatever the existing assessment that working capital has been fully utilized. So our revised assessment is underway. So we are expecting almost Rs 200 Crores growth in the working capital limits, both in funded and non-funded put together.

Moderator: Thank you so much. The next question is from the line of Mr. Rajendra, who's an individual investor. Please go ahead.

Rajendar: I'm Rajendar. I have two quick questions. My first question is, in your recent EPC order wins, you got a few medical colleges and hospital contracts. Is that a conscious attempt from the management to build medical colleges and hospitals? And is there any relation to the Cleanroom company, GMP Technical Solutions? What I'm getting at is, are you getting better margins in hospital projects that I want to know? And second question is regarding the Kalyani Nagar projects. What is the status of the projects? Thank you.

Santosh Sundararajan: Yes. It is a bit coincidental that we are bagging more hospitals. It is not necessarily a very conscious attempt that we can only have that hospital projects. The government -- both state and center seem to be focusing on quite a few hospital projects and so we are now -- and quite a few of them around EPC mode, and so we are confident of adding value and ensuring our profitability is intact, so we are participating in some of these.

But having said that, your point is very valid, GMP, although, we are aware that orders we secure, as Vascon, which we have been reporting so far, the scope of GMP in hospitals in terms of equipment and in terms of Cleanroom insulation, those are not included in Vascon orders and therefore, we will not be able to do a sort of a data integration in past days because of work with GMP.

However, we are now in the process of integrating GMP to these clients and consultants so that they get themselves invested in these departments so that they can participate in those bids when those bids come. And hopefully, we will be able to guide them to dial a few orders in. Because all these hospitals will definitely have a great amount of cleanroom intake, which will come down the road.

The second question in terms of the Kalyani Nagar land. We are discussing with a couple of big single clients, which were very open space to be declaring anything that we are hopeful of closing an order of a single client with a single building for at least half the projects about 5 lakh square feet in the next few months. If that happens, that will be a good start to kick off that project. If not, we have the plan to always have building residential over there, which will then be put into action.

Moderator: Ladies and gentlemen, we have the management line connected back. Thank you so much for patiently holding. So we take the next question from the line of Mr. Mahesh Shah, who is an individual investor. Please go ahead, sir.

Mahesh Shah: Yes. So I just wanted to know, can you like provide some guidance on the real estate segment for the remaining half of the financial year?

Santosh Sundararajan: So we've been maintaining – we do not really have – from a revenue recognition or a P&L, balance sheet point of view, we do not really have much this year that will see completion. So going forward for the next two quarters also, we expect real estate this year to be bleak just like it has been in the first two quarters in terms of top line. The margins, of course, are always healthy in real estate, but this time would not be compared to last year's stock, we've been giving a guideline over the last few quarters.

Next year, we expect to see completions of projects, and we expect to see the top line being in as far as real estate is concerned. However launching two more projects this year, we are actively increasing our real estate order book both in Pune and in Mumbai. In Mumbai, we are hopeful to be closing at least one more redevelopment. So we will be launching one more project before the end of the year. And so the pipeline in terms of growth of real estate, the order booking is all happening at good pace. The revenues will start coming to our book from next year onwards.

Mahesh Shah: Okay. And so when are we expecting that the Powai project will start?

Santosh Sundararajan: We do hope to launch the Powai project, if possible, in this year, but otherwise, it might go to early part of next financial year. We are in the process of taking the approval

Mahesh Shah: Okay. And one last final question that how much order are we bidding in the second half of the financial year?

Santosh Sundararajan: We will be continuing to bid. We were enhancing our BG limits. And so that gives us confidence to continue to bid and try for many more projects. We are, in fact, very hopeful of at least bagging another Rs 800 Crores to Rs 1,000 Crores within the next few months itself, the project we have already bid for, and we are in final stage of negotiation or probably we are L1 and waiting for the LOI from the authorities. So that part is pretty much in hand for another Rs 800 Crores of order booking.

Beyond that before that, we would try to keep the order booking on, although we have already exceeded with this standard -- we could have well set our target we set for us in the beginning of the year we will be almost equal of that. But if the BG limits are extended then it will be good news, then we will continue to make sure that the going is good, we don't want to put brakes on that. If we are able to bag even more by March, then as we say, we always look at order book at the start of the year of which one third of the order book in executed in the year itself.

Moderator: Sorry to interrupt, again. Well, sir, there is a lot of disturbance which is coming from your side and your voice is breaking a lot.

Santosh Sundararajan: Yes. So as I said, we hope to be booking another Rs 800 Crores, for sure, and then we'll be continuing to take targets to book even more before March. So hopefully, we want to start the next financial year with close to upwards of Rs 3,500 Crores order backlog in hand.

Moderator: Thank you so much. The next question is from the line of Mr. Himanshu Upadhyay from O3 Portfolio Management Services. Please go ahead.

Himanshu Upadhyay: Yes. See, my one question was a few quarters back, we stated that we have a team which is focusing on private sector also, the private sector, EPC contracts, okay? Can you elaborate what is the progress on that? And what are the challenges you are facing in that business? And -- is there something more to be done to get the business? Or do you think the type of contracts which you are interested in are not coming and hence, the business is not coming up or scaling of whatever we can see?

Santosh Sundararajan: Yes, you are right. It's a valid point. See, our strategies on government sector and private sector are quite different. In the private sector, we are being extremely, extremely choosy. So when we start filtering the quality of the client, the quality of the project, the finances of the project all of these and then the profitability when we put all these factors and want to strike a deal which sticks for us on all these factors, it does become extremely difficult.

So -- but at the same time, we are not desperate to just bag an order from the private sector, just to say that we have done that. Having said that, we have been bidding for at least three or four good projects, which we would be happy to take and we are hopeful that at least one of them will translate in the next couple of months. So we will be hopefully having good news on this front before the next call because that team, as you said, is working on this.

But the intake might be slower than it will be in the government for the time being because of our own decision to be extremely picky. And our terms that we lay also, we do not want to accept all the terms that the client puts on us and we negotiate on many of those terms. So sometimes we just back off because we are not success in those negotiations.

Himanshu Upadhyay: Okay. And can you give any idea on business development in the residential side of the business with not just launches, but any new projects are you thinking about? And any sales target or anything you have in the mind on that business? Because the environment is very good or what we understand from so what are we doing to maximize out of what is happening in the market?

Santosh Sundararajan: Yes, you're right. The environment for real estate to be very good. Unfortunately, we do not have so many projects with unsold inventory at this point of time to extinguish. So what we have in hand is going slow and steady. The rest of it, whatever we have launched at first stage, Windmere is of course also over. That story is over…

Santosh Sundararajan: Yes. So I'm saying, yes, the scenario in the market for residential sales has been very good overall. And unfortunately, we have only Forest Edge and Coimbatore as projects where we had unsold inventory, which we have almost managed to sell in this period. And we are now hoping to launch, as I said, in Pune, one more project trying to tie up more projects as quickly as we can so that by next year, we can have a series of launches.

Himanshu Upadhyay: And have you seen a price increases for wherever the inventories and how -- what type of price increase we have seen in last six months to one year?

Santosh Sundararajan: Yes. Now the price has started increasing. We have seen about almost a 15%, 20% rise in the price in good locations in the last one year.

Himanshu Upadhyay: Okay. See, I could not hear the answer last time on this question of what you stated. What you were saying on your incremental loans from NBFCs, I was not able to hear that.

Santosh Sundararajan: No, we said, see, we've taken about Rs 30-odd Crores of debt over this period, primarily for two reasons. One is real estate, to launch a couple of projects in real estate, the initial approval costs and all of that. And the second is, as we have taken up new orders in EPC, there is an initial investment needed in terms of initial expenses on these projects, bid bonds, etc. We did not want to use most of our BG limits and draw down on our advances available from one or two clients as a strategy because we want to save our BG limits for bagging more projects.

And even the cost of using the BG limits to draw down advances is also pretty similar because most of these advances come at a cost. We felt that it is better to keep the BG in short term sources, which we will then be under pressure to extinguish fast. So that's the reason we have used these resources to -- from debt.

Himanshu Upadhyay: And our credit rating improved to BBB+ from BBB. You also mentioned it. But has it started -- or has it given us any benefits in the loans what we are getting from NBFCs or the new loans? I understand there is interest rates also which have risen. But overall, how is the cost of capital move for us in the last...

Somnath Biswas: See, there is a answer to your question, there is a two-way benefit what you are envisaging -- what you are experiencing right now? One, despite of the increase in the lending rate, still our rate is very competitive what you are getting from NBFC. The comfort from NBFCs and banks are hugely increased.

Secondly, what we are expecting that assessment, which is underway with our lead banker, which is State Bank of India, with a much more better terms of what we are already seen as on to date. So that result is expected by another month or so. The reverse assessment is underway. So obviously, the banking scenario, the attraction has increased substantially. The rate is also much more stabilized. We're in a better position to negotiate rates and do the deal. And second, the lender has significantly changed over the last couple of months or maybe something more than also. So a lot of positive benefits we are now experiencing.

Moderator: Thank you so much. As there are no questions, I would now like to hand the conference over to Dr. Santosh Sundararajan for closing comments.

Santosh Sundararajan: Yes. Thank you, everyone, for actively participating and showing interest in the company. And these two quarters and the year after that, definitely looked much more promising than these two quarters. So we are seeing a huge amount of uptick on all numbers going forward, and I'm looking forward to that and wish all of you a very safe and happy Diwali and see you next quarter. Thank you.

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