"Vascon Engineers Limited

Q1 FY24 Earnings Conference Call"

August 09, 2023

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Moderator: Ladies and gentlemen, good morning, and welcome to Vascon Engineers Limited Q1 FY24 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 this 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 first quarter ended June 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 to the Q1 FY24 Financial Results and the Results Presentation uploaded on the stock exchanges and on the company's website.

Q1 FY 24 saw an excellent start of the year for the company, 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. Our improved cash flow profile backed by sale of some of our non-core assets, better operational efficiencies in the EPC segment have resulted in good traction. The reduction of this high-cost debt has allowed us to upgrade our credit rating from CRISIL, and it has opened up avenues for the company to carry forward the growth cycle that has started in the years 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 continues in Q1 FY24 with an order book at over 3x of FY23 revenue, strong balance sheet, high efficiency of all business segments and our overall improved financial position, we believe we are well positioned to continue on this growth trajectory in the coming quarters.

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

Our improved funding position. As we have been informing you, our credit rating has been improving and with CRISIL rating has been upgraded to **BBB+ from BBB for long-term facilities and has been upgraded to A2 from A3+ for short-term facilities**. We have commenced applying for enhanced BG limits also. 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 limit of INR 300 Crores as of Q1 FY24 and expect to increase this limit to INR 400 Crores by end of this year. The ratings have also helped us negotiate better interest rates, which we are currently doing with the banks.

EPC execution and order book.

During the quarter, EPC revenue increased 6% Y-o-Y to INR 145 Crores in Q1 FY24. Our EPC order book has been robust throughout the year. We started the year with an order book of INR 2,127 Crores and executed an order book worth of INR 147 Crores this quarter. We are hopeful to bag a couple of orders in the next two months, three months, which will increase the order book by more than INR 1,500 Crores. We have already won some large orders wins in the beginning of the current financial year with some projects such as the Maharashtra State Police Department for Construction of residential and amenity blocks worth INR 380 Crores. Execution of new orders will have a positive impact on revenue from second half of the year.

Our total order book as of Q1 FY24 stands at INR 1,980 Crores, which forms almost 3x FY23 revenue. This provides strong visibility for EPC revenue growth for the next two years, three years. Of the total order, external EPC orders are around INR 1,600 Crores and the balance INR 383 Crores are from internal orders. Further, almost 78% of the order book is towards government projects, which provide visibility of faster execution and uninterrupted cash flows.

Real estate continues towards growth momentum.

Coming to our real estate business, as we have been experiencing for some time now, the nature of the bookkeeping treatment in terms of Ind AS requirements means that there will be some timing differences between booking of expenses and booking of revenues.

Now that a large part of our real estate project portfolio has been completed, we will start seeing a positive reflection on the results from our real estate business segment from next year onwards. Our new sales booking in Q1 FY24 stood at 37,909 Sq. Ft. for a total sales value of INR 41 Crores. During Q1 FY24, our real estate revenue stood at INR 11 Crores and EBITDA of INR 4 Crores. The gross margin came in at 64%, while EBITDA margin at 36%. We are hopeful for maintaining the momentum in 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.

In our real estate segment, we have already launched one project in FY24, and we are currently in the process of launching two more projects in this year. However, current year decline in real estate revenue will be compensated by EPC sales for the year so that the total top line would be maintained compared to the previous year.

Lastly, the GMP business 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 INR 56 Crores from Q1 FY24 and gross margins of 32% have been reported by GMP. EBITDA stood at INR 3 Crores with a margin of 6% in Q1 FY24.

Debt reduction continued

The company has been repaying a significant amount of high-cost debt over the last two years, and this has helped the company bring down its finance costs substantially during this period. We are happy to report that over the past 24 months, we have reduced our gross debt by INR 48 Crores, which stands at INR 165 Crores as on June 30, 2023, as against INR 214 Crores as on March 31, 2021. However, during the quarter, gross debt has increased by INR 31 Crores, majorly on account of entering into new joint ventures for real estate, as well as higher utilization of CC limit in EPC.

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

The government infrastructure, private sector manufacturing commitments and associated incentive according to the industry are the main drivers for Indian construction industry's bright outlook. It also included 20% rise in income and an increase in investment over the following 12 months. Infra investment has grown as a result of the government's announcement of the National Infrastructure Pipeline, which is expected to cost US$1.4 Trillion and the National Monetization Pipeline, which will generate US$ 70 Billion in new assets between FY '20 and FY25.

The housing markets in India is anticipated to maintain its pace with sales growing at a rate of 9% Y-o-Y in the current year FY 2023-'24 and it is supported by a stable and strong demand according to the India Ratings and Research. In 2023-'24, it is anticipated that Grade 1 players would see improved liquidity and sales growth of 15 to 18% annually. In the top 8 Indian cities, residential sales are projected to rise 18% Y-o-Y to 392 million square feet compared to FY2022-'23. This was primarily supported by a steady and robust demand.

Coming to the financial performance of the company in Q1 FY24. On the overall financial performance, let me start with the stand-alone numbers. During Q1 FY24, the company reported a total income of INR 152 Crores as against INR 143 Crores in Q1 FY23, which is a growth of 6% Y-o-Y. In Q1 FY24, EBITDA stood at INR 15 Crores as against INR 15 Crores with a marginal growth of 4% in the corresponding period last year. EBITDA margin was at 10%, reported a net profit of INR 11 Crores in Q1 FY24, against INR 10 Crores in Q1 FY23.

On a consolidated basis, in Q1 FY24, the company reported a total income of INR 209 Crores as against INR 203 Crores in Q1 FY23, which is a marginal growth of 3% Y-o-Y. The EBITDA stood at INR 19 Crores with EBITDA margin of 9% against INR 18 Crores in Q1 FY23 and a net profit of INR 12 Crores as against INR 11 Crores in Q1 FY23.

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 and increasing our order book while maintaining financial prudence, which will enhance our profitability going forward.

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

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

Himanshu Upadhyay: Congrats on good set of results or improving results. I had three or four questions. The first question was, sir, our order book has been flattish, okay, for EPC business. So if we look at FY '20, it was around INR 2,060 Crores. And if we look at just the external order book, which was around INR 2,019 Crores in FY '21, which is down to INR 1,597 Crores currently. Can you explain the reason for it? Because what we have been hearing is the last three years have been good for everybody, order book is increasing. But our overall order book remains flattish or has not grown that much. And how big a challenge will it be for us to grow if our order book remains around this level? Yes, that's from my side.

Santosh Sundararajan: Yes. So you're right, the order book hasn't increased over the last 1.5 years, a couple of years. So basically, we have been only booking orders worth what we have been extinguishing in the last year. Last year, we had certain BG constraints, and we couldn't exceed our order booking target. We have increased our BG limit this year by about INR 40 Crores - INR 50 Crores. And we are in the process of now getting further increased new assessment based on our last year's balance sheet, which has significantly improved compared to the year before that. So these improvements with the banking facilities are going on currently, our rating has improved. So we are very now positive that in the next three- four months, we'll have much higher BG limits and lesser constraints to book orders.

Having said that, I would like to apprise you that we are very much on the worth of bagging more than INR 1,500 Crores of orders. We are at the last stages of negotiation in quite a few projects at this point of time, and we can hopefully look forward to some announcements in the next few weeks. And yes, we will be targeting to have an order book closer to INR 3,000 Crores rather than INR 2,000 Crores because next year, we want to grow our EPC revenue to at least INR 1,000 Crores. And for that, we need to start the year with INR 3,000 Crores order book. So that is definitely a target, and we will achieve that.

Himanshu Upadhyay: Okay. And second was, in one of the older calls, we stated that the government road was going to pass-through our land in Thane. And it was believed that it will lead to substantial sale of land to the government, okay? What really happened on that? And is that road really now passing or not passing? Any updates on that?

Santosh Sundararajan: See, in the DP plan drawn out -- unofficial DP plans that came out with the -- there is definitely a road that is passing through our plot of land. This activity of acquisition was picking up pace, but our government keeps changing. So currently, if the activity has slowed down. But definitely, the road has been indicated over is the government, the road is there. Sooner or later, acquisition will start, and then we will have to deal with the government and sell our land to them, which will be a good thing for the company. But as of now, this was active six months ago. But as of now, the activity from the government side has been put on hold or slow at this point of time. But the road is definitely there.

Himanshu Upadhyay: Okay. And one more thing. We have stated that we'll need to buy more land to make it contiguous or continuing to have the road frontage, okay? But we have said that we are capital constrained or we have those issues. But as we delay more and more, can there be a substantial cost increase? And, let's say, if the construction happens in the nearby places. So what can be the future challenges to getting that land monetized? Just to understand from that point of view.

Santosh Sundararajan: Yes. See, as the construction is happening all around, and as you said, the price is only increasing, which is only a good thing for us as a company because what we hold, we definitely own. So even if it is not contiguous, the price of it continues to increase as development comes closer and around our land, which is always a good news for the company. As to do with acquisition cost of the balance increasing, of course, if our land cost is increasing, the acquisition cost of lands around us is also continuously increasing. And in any case, we had taken a stand three years, four years ago that we are not having the kind of capital needed to focus on that. And I think as a company, we feel that our capital and bandwidth is much better deployed in growing our businesses, real estate and EPC elsewhere. We are not so strong in terms of cash balances to go and start acquiring lands around that.

So our strategy remains the same. At one point of time, we will be looking for a partner who will bring in the funds to acquire those lands. We can then separate and both of us would end up with contiguous land. So we are in talks with few developers, quite a few are interested. It is very prime location. I think when the time is right and when someone really wants to acquire -- a bigger place wants to acquire those parcels and probably wants to acquire our parcels as well, that is when we will strike a deal and see what best we can liquidate for Vascon.

Himanshu Upadhyay: One last question from my side. See, this Powai land is what we got from selling our stake in the Goa Hotel. If you look at the revenue share, okay, And the value of our hotel property was INR 45 Crores, okay, and if we look at our share comes to INR 118 Crores or somewhere around that, okay, and we will be doing construction also, even if we assume INR 3,500 of -- means construction cost. What we are going to get means around INR 55 Crores would be going to construction expense.

So what we'll be getting is INR 50 Crores – INR 60 Crores only in the project. So it is -- when we bought this land or with the -- from Royal Orchid, our expectation was this will be a big value creator, okay, the land. But what we see is even after two years or three years, the value, means seems or the excel or the presentation what you have given, the cash what we'll be getting is only around INR 60 Crores, okay. What are your thoughts? And what happened in that place?

Santosh Sundararajan: No. So firstly, the reason we took that land is because we have been trying to get an exit from Royal Orchid. So understand, we were a slightly minority partner in the Hotel in Goa, and we've been trying to get an exit from that project for almost 7-8 years, which -- because of the pattern of shareholding, we were not ever able to strike a deal. And so, therefore, this was a negotiation with our partner in Royal Orchid to give us an exit from there and in exchange for the land in Powai. So at the end of the day, you have to realize, on book, we can say we had INR 45 Crores – INR 50 Crores in Goa, but that was not going to be realized so easily in terms of sales. And this at least helps us liquidate -- do a project and liquidate and exit.

To do with your estimate of INR 60 Crores, I think what the -- last time in our meeting with the real estate team was indicating more than about INR 80 Crores of free profits and cash flows to Vascon share from this project. But I think I will revisit the numbers and we can discuss...

Somnath Biswas: Yes, I'll just confirm the number. So what you are looking at that number, if you see -- you are looking from the real estate perspective, what is the Vascon share of profit. But the understanding is that, since it is a third-party entity has been -- that Vascon has been is that. So officially Vascon is supposed get a construction contract on the same also. So that construction contract also is something. So if you look at in Vascon's perspective, it is higher. What is the number -- looking at the number. So overall it is higher in this project.

And the second thing is that, typically, if you look at the project net, say, almost more than INR 30 Crores – INR 40 Crores investment in terms of the approval and permission and approval, all these concerns. And there is no point of borrowing fund and servicing it for a year or so without having any cash flow in the system. It is a prudent call has been taken by us to dilute some stake, get the partner in, get the cash flow in and pick-up the project that is better for us as of now.

Santosh Sundararajan: So, I mean, you're right. See, again, I would like to set the expectations right now, I keep saying this that our real estate division is like a glorified EPC. We do not want to be putting our own equity or borrowing much on these projects. So we will be looking at methods where we have an equity partner. And then we will execute the project. So our margins might look lesser than what we would expect from typical real estate where the land is in your city. And in this case, anyway, as I said, it was important for us to get out of the Goa Hotel, which was not at all liquidatable, and I think we are now on a project where we will execute and liquidate our stake and get the cash flows to move ahead.

Moderator: Thank you. The next question is from the line of Dhananjay Kumar Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir, you said that our current BG limit, our working capital limit is about INR 300 Crores. So what is the current utilization? And, I mean, in EPC segment, when other contractors have delivered very good results, while we have grown just 7% despite having order book. So this is because of constraint from BG limit or this is normal growth we would have done anyway.

Santosh Sundararajan: No. So as I said, before the order booking last year was just enough to sustain the execution run rate, it was not enough to grow drastically, and the reason for that was the BG limit. The INR 300 Crores limit is almost fully utilized. But now we've got an INR 40 Crores added limit, the INR 300 Crores has an INR 40 Crores limit which is unutilized. So now we are in a position to bag at least INR 1,000 plus Crores of order book using those limits, and we are working on it. And we are actually at an advantage of discussion in a few projects. So hopefully, as I said, in the next few weeks, you can expect some news from us.

And that will then help us grow. So we are expecting our quarter 3 and quarter 4 because few projects that we bagged early this year in January and February, those needed environmental clearances, tree cutting, etc. These are in process, they're almost done. So we expect to start work on the Pune Police Housing in September and also on the PMRDA project that we bagged in September. So both of these will give us added revenues in Q3, Q4 compared to last year. And so, that is why we hope to catch up. You're right, we've just grown about 7% in Q1 and Q2 might be pretty much similar. But Q3, Q4, we expect our run rate to be more than last year.

Dhananjay Mishra: So overall, for FY24, what kind of growth that you're expecting in EPC?

Santosh Sundararajan: We've been talking about 10% to 15%. So we expect this year, the growth to remain in that range. But next year, we intend to jump straight to INR 1,000 Crores for the EPC.

Dhananjay Mishra: Okay. And coming to GMP business, which had at least -- I mean, last two quarters at a run rate of INR 75 Crores. But this quarter, it has come down to INR 58 Crores. So any seasonality in that business, or you can explain?

Santosh Sundararajan: For real estate business, I would advise we do not look on quarter-on-quarter or annual...

Dhananjay Mishra: I'm talking about GMP business, not real estate.

Santosh Sundararajan: Sorry, GMP...

Dhananjay Mishra: INR 75 Crores net was there in quarterly basis. But this year -- this quarter, we have done about INR 56 Crores. So any seasonality in this business that's what I was asking.

Somnath Biswas: Okay. GMP businesses have marginal change in this quarter as these were -- there is some back-to-back -- we got big order from some big client has been put on hold for some time as whatever the back-end integration is required from the client side was a little bit delay. So that's why there is a slight drop in the GMP top line and bottom line in first quarter is concerned. But we are pretty well placed in terms of the order book of GMP is concerned, we are better off as compared to the last year in terms of the order book is concerned, and execution capacity has also seen an increase.

So we are just at the last phase of starting operation of another plant also. So it will start operations from August onward or so. So the run rate will be continued, and we are expecting, on a Y-o-Y basis, if you compare to last year, our performance in GMP we are expecting almost 10% to 15% growth in the top line and almost 20% growth in the bottom line. So our order book and everything is very well placed to take this thing up. But first quarter due to this slightly droppage of the backward integration with the client, slight bit of drop happened in terms of the GMP is concerned.

Dhananjay Mishra: Or any plan of monetization, I mean, any development on that front on GMP?

Santosh Sundararajan: Which one?

Dhananjay Mishra: Selling this business, so what is -- any plan as of now?

Santosh Sundararajan: So there is always -- there is a mandate in the market we are looking for suitors, but we did get one or two offers, which we were not happy with. So we've not accepted those offers. We will wait for the right offer and then select process in the panel process, we do have a couple of merchant bankers working on it. Whenever we feel there is a suitable offer, we will definitely look at it.

Moderator: Thank you. The next question is from the line of Vikram Damani from Damani Securities. Please go ahead.

Vikram Damani: Congratulations on a decent set of numbers. I just wanted to know how much land in total do we have in Thane?

Santosh Sundararajan: We have a 45% stake in an entity that owns 150 acres.

Vikram Damani: And who is the -- other 55% who is the holder of that?

Santosh Sundararajan: So 10% is a strategic investor, another 45% is an HNI from Mumbai.

Vikram Damani: Got it. And if the government plan does pass through this parcel, how much of these 45 acres -- how much of these 150 acres would be sort of going in the road? And do we have an estimation of that?

Santosh Sundararajan: Yes, I was told it was about 40 acres -- 40-odd acres that would go on the road.

Vikram Damani: Perfect. And these 150 acres is contiguous or it's split into...

Santosh Sundararajan: No. 150 acres is not contiguous. That is the reason that we are not monetizing it straightaway. There are gaps in-between quite a few people have plant in that location.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I wanted to know if all your real estate projects, the EPC orders come to you or they also executed outside?

Santosh Sundararajan: So wherever we have partners, a process of initiating an arm's length quotation and discussion will always happen. So far, we have managed to bag wherever we are in the driving seat, of course, we get the first site of refusal. Yes, so far, actually, all these orders have been coming to us.

Tushar Sarda: Okay. Now because in your pipeline, there are four projects. And I see only Santacruz as part of this order book, not -- for example, the Pashan-Baner with INR 750 Crores sale value, that's not part of your order book. So I'm wondering what is the reason. Kalyani Nagar is not part of your order book. So...

Santosh Sundararajan: So what we do on the EPC side for the order book is only when a real estate project is launched. And effectively, I mean, we look at it that when we are being given a contract as a contractor, it's an internal document we create where the real estate department internally ask us to start the work and sign pro forma at the initial budget. So I think we clearly don't reach that point on any of our real estate projects, we do not include those as an EPC order yet. But you are right, we will come. In Santacruz, we are in control, same as Kalyani Nagar and same Baner-Pashan. I mean, the partners are not active and the powers are with Vascon Real Estate to choose the contract. And so, we will, in all likelihood bag these orders, there's no reason why we will not be constructing these. We will bring them into our order book at the right time.

Tushar Sarda: Okay. So this will become part of it. So your order book would go up by almost INR 1,000 Crores because of this.

Santosh Sundararajan: Yes, INR 500 Crores internal order is very much in hand over the next 8 - 12 months, any projects get launched, which will add up to our EPC order book internally as well, you're right.

Tushar Sarda: Okay. In the past, Vascon was very well-known for doing real estate projects for developers, but your presentation talks of doing more government work. So what is the reason for this shift? And, I mean, in the past, of course, there was real estate developers, but now developers are well capitalized. So do you think you should get back into that kind of segment?

Santosh Sundararajan: We are open -- what happens is, we feel -- I mean, our own study as contractors, if we get to choose our clients and at this point of time, it looks like big government projects where we have -- see, you have to understand something, over the last 25 years, Vascon has accumulated prequalification, which sort of cuts off quite a bit of competition when we buy in government projects.

Whereas in private projects, it is up to the management of the company to decide whom they want to include in the tender. And so, we feel that as long as we are able to bag, we're now in the range where we are able to bid for projects close to INR 400 Crores – INR 500 Crores in the government sector, whereby the competition is slightly lower as well. So our focus is that, unless our order booking is not getting fully subscribed by exposure to these kind of bigger government projects.

And when you come to private, then we would rather look at the kind of private projects that are either industrial or big commercial IT parks, which are -- it generally have their funding in place when they decide to construct because the risk of non-payment and risks of disputes during the projects are much lower that way.

We are not averse to looking at builders. I mean, we do have a team, which is focusing on that as well. But there, we would then will be putting our terms forward. We do not -- we are very constrained, limited bank guarantees. And so, we do not want to be putting up bank guarantees to a private builder project. So whenever they interest on those things or those terms, sometimes we end up backing out. So, I mean, builder projects are still maybe third preferred clientele for us, as long as we are able to get projects from number on and number two preferred clientele, a builder project -- as long as it's only -- if it's coming at our terms and our rate, we'll pick it up.

Tushar Sarda: Government projects, you need to give bank guarantee, right, and you are constrained by -- your bank guarantees are fully detrimental. So getting new orders become difficult. So...

Santosh Sundararajan: Yes, and you're right. On the private side, we do try to negotiate projects where we can avoid the performance bank guarantee so that our order book can increase without the bank guarantee limit. So that process is on we did do that. We got a project from Vedanta without putting up a bank guarantee for the performance and we're catering with Sheth builders. So whatever private projects we are doing, if it is avoidable to -- if it is -- able to negotiate without performance bank guarantee, we do that.

Somnath Biswas: So eventually in a likelihood what you can say that from the builder's certainty, Vason is the most preferred builder for us as compared to any other builders.

Moderator: Thank you. We'll move on to the next question that is from the line Rusmik Oza from 9 Rays EquiResearch. Please go ahead.

Rusmik Oza: I just wanted some more inputs; you mentioned that around 40 acres of the army land can go for the road project. If you sell these 40 acres to the government, what could be the realization which we can expect?

Santosh Sundararajan: So I think the current value -- for ready reckoner values of land in that region are INR 3 Crores -- it was INR 3 Crores a few months ago, so maybe INR 3 Crores or upwards and the government typically gives sometimes double of those while acquiring. So -- but we do not have a firm offer, discussions haven't started. But yes, we can expect INR 5 Crores – INR 6 Crores at least.

Rusmik Oza: Okay. And you mentioned some figure, I missed out what kind of outlook in terms of revenue we're looking for FY25? Because you said you want to start FY25 with an order book of INR 3,000 Crores in the EPC business. So what could be the revenue run rate of EPC business by FY25? And since you real estate also pick-up pace, booking everything big timing FY25, what kind of revenue run rate you're looking at from the real estate in FY25? Can you just give us some figures that would be helpful. Thanks.

Santosh Sundararajan: Yes. So for the EPC, as stick my neck out and say we're targeting FY25, we want to touch INR 3,000 Crores mark of third-party execution or rather EPC execution, internal and third-party. And as far as real estate is concerned, we're launching quite a few projects this year. But again, FY25, some of them might not get completion. Still we expect completions for a couple of projects, we should do upwards of INR 150 Crores – INR 200 Crores in FY25 from real estate. And from FY '26 onwards, that run rate should be steady and continuing to grow.

Moderator: Thank you. The next question is from the line of Ramanan from MK Ventures. Please go ahead.

Ramanan: Yes, I have a couple of questions. One is on the real estate side, when we talk about commercial projects, these are commercial projects that we would sell or we would lease it out? One.

And the second is, can you give some light on the JDA projects that you have? What is your share in terms of either area or revenue? So what would it be in terms of the existing under development, as well as the pipeline?

Santosh Sundararajan: The second question first, the JDA share for each project is different. I think that is shared in our investor presentation or if you do not have, I mean, we can share detailed numbers with you to get in touch with us off-line. Each project has a different JDA share, depending on landowner share and sometimes we have an equity partner.

The first question on commercial, as far as Vascon is concerned, we launched a commercial project in Kharadi. We intend to launch one in Baner, but we are not in business of holding commercial assets and leasing them. Even if we at all have a leasing model, we would lease and then discount the lease and sell out the asset. So we do not intend to hold on the commercial assets. We will develop them, sell and exit.

Ramanan: Okay. So just on the pipeline, on the JDA thing, I mean, what I don't have is the pipeline one. So what you have indicated is Vascon share, is it? Can we talk about Kalyani Nagar, both?

Santosh Sundararajan: Yes, what we indicated in our presentation is only Vascon share. If you want all the details, if you can just get in touch with us, we can send across Vascon share -- what we've indicated is Vascon share. Yes.

Moderator: Thank you. The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh: Sir, we said around -- just to the previous participant, around INR 150 Crores – INR 200 cores of real estate revenues. Are we seeing on a reported basis for FY25?

Somnath Biswas: Yes. On the balance sheet, yes.

Rishikesh: So this is like what will be reported on P&L in FY25, right?

Somnath Biswas: Yes, yes.

Rishikesh: And on that, what margins are we looking to do, EBITDA margins?

Somnath Biswas: As I said, for us, gross profit in real estate are closer to 25% - 30% typically. Profit and EBITDA would be 15% & 18% as of now.

Rishikesh: Okay. And for EPC business, what revenue are we targeting for FY25? I just missed that number.

Somnath Biswas: INR 1,000 Crores.

Rishikesh: INR 1,000 Crores?

Somnath Biswas: Yes, we're targeting that.

Rishikesh: Okay. And on that, what kind of EBITDA margins are we targeting?

Somnath Biswas: Again, in EPC, our gross profit would be the range of 13% -15%. End of the day, we are hoping to reach a number of 9% -10% as far as PBT is concerned.

Rishikesh: Okay. And also, sir, could you like bifurcate what debt do we have in real estate and in EPC?

Somnath Biswas: The only debt that is in EPC is an INR 60 Crores CC limit, INR 63 Crores CC limit. And that sometimes when we report our numbers, quarter-on-quarter sometimes it's fully utilized, sometimes it's not fully utilized. So that part we'll have to check. The balance debt belongs to the real estate.

Moderator: Thank you. The next question is from the line of Prashant, an Individual Investor. Please go ahead. As there's no response from the current participant, we'll move on to the next, that is from the line of Ramanan from MK Ventures. Please go ahead.

Ramanan: Yes, sorry. Just one more question on the real estate side. When we see the segmental data, I think we have a revenue of about INR 6.5 Crores and EBIT of about INR 6.3 Crores, whereas, of course, in the presentation, which probably includes the joint venture revenues as well, there it is INR 10.9 Crores and INR 4 Crores. So what is the difference in the two? I mean, one is, is there any capital gains in this? What is it like? The segmental numbers.

Santosh Sundararajan: Okay. So I think -- see, there is a share of profit from a company called Ajanta where we are partners. So the difference would be that. So that -- from that entity, we do not get the top line, we get only share of profit. So in presentation, we added our -- that looks as revenue. So that will be profit, which also adds up to revenue, but it's totally adds up to the profit itself.

Ramanan: Okay. The only thing is in the segmental, we have INR 6.3 Crores as EBIT, whereas if you look at the presentation, there we will look at EBITDA of about INR 3.99 Crores, I'd say, INR 4 Crores.

Santosh Sundararajan: So, yes, I think that difference is quite for the share of profit that is coming in from Ajanta.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: I was going through your presentation, right, the real estate project that are in pipeline, do we expect to launch this in FY24? I mean, all these four projects, Santacruz, Baner?

Somnath Biswas: Powai and Baner, we expected to commence in this current financial year.

Vignesh Iyer: Thane?

Santosh Sundararajan: Yes, Powai, Baner, Santacruz, yes, we will be launching it in this financial year.

Somnath Biswas: The Ajanta will be over by next year.

Vignesh Iyer: In general, when this project gets launched, what is your percentage of booking that happens? I mean, for every real estate company, they have got this right, 25%, 30% that comes in launch itself. What is your rate, I mean, historically?

Santosh Sundararajan: Yes, about 25% to 30%, in fact, more than 30% sometimes, 35% we do end up booking when we launch.

Vignesh Iyer: Okay. Right. Got it. So for FY23, when I went to your segmental, and we have reported a huge chunk in real estate development. If I'm not wrong, we won't be repeating similar performance in FY24, right?

Santosh Sundararajan: That's right, we do not have enough completions of projects in FY24. A couple of three projects were completed in FY23 and therefore, we saw revenues and the associated profits being reported last year. This year, we do not have completions happening on any of our projects. So what revenue will come would be any additional sales on already completed projects, which is not much. We do not have much inventory. And therefore, we are not projecting -- honestly, we will not see a huge number to do with real estate top line or bottom line in FY24. But in FY25, that again, we will be getting revenues and bottom line.

Vignesh Iyer: Okay. So that is fair enough. And how many more quarters do we see getting us tax advantage, means we have to start paying tax at some point of time, right?

Santosh Sundararajan: Yes. This year, we will unfortunately have to start paying tax, I guess. I think we will be finishing our carry-forward losses this year.

Somnath Biswas: Already done some minor portion is left out.

Santosh Sundararajan: From next quarter onwards, we are -- after PAT will be different to PBT.

Vignesh Iyer: Right. So you would be in 25% tax benefit?

Santosh Sundararajan: Yes, you're correct.

Moderator: Thank you. The next question is from the line of Prashant, an Individual Investor. Please go ahead.

Prashant: Yes. So my -- majority of my doubts have been cleared. I just have one small thing relating to your debt. Last quarter, we ended up with a net debt of around INR 12 Crores, which this quarter has gone up to INR 48 Crores. And so, basically, borrowings from two entities, Aditya Birla Capital and Prachay Capital have increased. My question is, I mean, since we are also borrowing from banks like UBI and CSB and others, why would we go to NBFCs? I mean, is it cost advantageous? Or how does the cost compare with the banks, rate cost?

Somnath Biswas: See, basically, let me explain you, your point is very correct, last quarter, we have a net debt of INR 12 Crores, this quarter, it has been increased. The point of increment is subject to almost if you look at -- more than INR 20 Crores, and there has been increase in the utilization of the CC limit put together GMP and Vascon. But at the centre, yes, there is an enhancement of the Prachay Capital.

We explained earlier also that this Prachay Capital, though, we are getting a super rate at the bank and all these things, but we are also taking this Prachay Capital. But it is our requirement to take the Prachay Capital because, as a result this fund has been utilized for tying up with JV, who is the landowner for another project, which is -- what is the advances and announcement, and everything will come at an appropriate time.

But JV and JDA and all this kind of investment while required then bank, finance is not available. So you have to go to a NBFC only. So that's why it is a prudent call has been taken. So business opportunity is quite higher and still compared to any -- and it is more of the top of this thing, this is an unsecured loan. So that's why we took some concept for it to go with some unsecured loan to tie up with further JV, which would enhance our real estate portfolio further.

Prashant: And in terms of costing, I mean, the cost of borrowing, how much would be the differential compared to the bank borrowing?

Somnath Biswas: It will be around in the range of 3% to 3.5%.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead with you question.

Tushar Sarda: I wanted to just check on -- you had plans to divest GMP at some point of time. So what is the status there? And what is the current thinking?

Santosh Sundararajan: So the plans remain intact. We have a mandate in the market with certain -- a couple of merchant bankers who are looking for potential suitors. In fact, we did have a couple of offers this year. But honestly, it was nowhere near what we were hoping to get because we did not take on those offers or negotiate further with them. But the process to try and find a suitor is continuously on. Whenever we have a suitable number on the table, we will negotiate and close.

Tushar Sarda: So any other way to monetize it, say, through an IPO or something?

Santosh Sundararajan: We are also -- I mean, the merchant bankers are also looking at the possibility of an SME or an IPO or -- but I think what is important for us is, can Vascon liquidate their stake. So sometimes you can list, but will we have enough -- we are 85% shareholder. So would there be enough traction for us to be able to sell and exit is something we want to assess before taking any such calls because we can see the strategic investor and MNC international investor.

There is a lot of potential in this company because with the amount of Make in India that is now finally starting to take shape with the Foxconns of the world coming to set up semiconductor industries here. And a lot of these industries will be needing clean room. GMP, the 90% exports to clean room will be health care centre, but it doesn't take much of treating to be able to supply clean rooms to the industrial sector, to the semiconductor sector. So they are working on it.

And based on that kind of growth horizon available in that industry, which is humongous, the number of factories that people intend to be putting up. So we feel that GMP will definitely have a strategic investor at some point, who will look at the bigger potential and offer us a fair price, which we will then take up and exit.

Tushar Sarda: What is the kind of realization we expect or monetization that we expect from this divestment?

Santosh Sundararajan: So we think we can easily get anything upwards of INR 200 - INR 250 Crores equity value for the company. And then our share would be 80-85% of that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Dr. Santosh Sundararajan for his closing comments.

Santosh Sundararajan: Yes, thanks, everyone, for the interest and the participation and the faith in the company. We are definitely looking ahead to consistent performance over the next seven - ten quarters, we can see the order book in hand or the ability to bag order in hand to ensure that we continue to grow over this period. And I'll see you again next quarter. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Vascon Engineers Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.