



“Vascon Engineers Limited Q1 FY 2022 Earnings Conference Call”

August 17, 2021



MANAGEMENT: DR. SANTOSH SUNDARARAJAN – CEO

MR. RAJESH MHATRE – CEO, REAL ESTATE DIVISION

MR. SOMNATH BISWAS – CFO

Moderator: Ladies and gentlemen, good day. And welcome to the Vascon Engineers Limited Q1 FY 2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Santosh Sundararajan, – CEO, Vascon Engineers Limited. Thank you and over to you, sir.

Dr. Santosh Sundararajan: Thank you, good morning, everyone. I welcome you all to the Earnings Conference Call of Vascon Engineers for the quarter ended June 30, 2021. I hope you all and your families are safe and healthy. Joining me on the call is Mr. Rajesh Mhatre, – CEO for the real estate division, and Mr. Somnath Biswas, – our CFO. I believe we would have gone through the Q1 FY 2022 Financial Results and Results Presentation uploaded on the stock exchanges and on the company's website.

The sentiment amongst the infrastructure sector has remained optimistic, as construction activities fared better during the second wave of COVID-19 pandemic. Collectively, less stringent lockdown and learning from the previous year has enabled the industry to better weather this situation. The availability of vaccines and an intensive vaccination campaign add to the sector's optimistic outlook. Real estate sector is also treading carefully and realizing that there is latent demand for both business and residential space, but the prolonged pandemic has hampered the sector. Housing sector's future remains bullish moving to an optimistic GDP, record high FDI and foreign reserves, resurgent core sector indicators, credit availability to developers and a growing employment rate, all of which contribute to a favorable development for future sentiments.

Coming to our business performance. In Q1FY 2022, the rate of recovery was slowed by lockdown restrictions and labor mismatches, resulting in lower-than-expected execution across all project sites. However, the situation steadily improved beginning in June as COVID-19 instances began to decline. Due to the second wave our revenues were impacted by almost Rs. 30 crores. With an improving overall situation, we continue to move forward with optimism while keeping in mind preparedness for the probable third wave of COVID-19. Additionally, our increased emphasis is on growth revival through accelerated execution across all the projects. With efficient working capital management cycle and stringent cost control measures to aid in us delivering better performance going forward.

The order book of the company remains robust, providing strong visibility of EPC revenue growth for the next two to three years. The current order book is Rs. 2,024 crores, comprising external EPC contracts of Rs. 1,939 crores and internal orders worth Rs. 85 crores. The government orders account for 85% of total orders, as a result of the company's effort towards improving the customer quality, thus providing visibility of faster execution while ensuring

uninterrupted cash flows. Our focus in the current fiscal year will be on accelerating the execution of the order book, which will lead to increased capacity utilization and better margin for the EPC business going forward. As a strategy, we will continue to take a cautious approach to building up new projects.

Coming to the real estate division. As you all are aware, the second wave of COVID-19 has been more devastating than the first, with severe repercussions on the healthcare system all around. To curtail cases, there have been localized lockdowns across most of the top cities, and this has affected site visits and therefore housing sales. However, the impact of second wave of COVID-19 was limited on the real estate as a sector was better prepared now and has already adapted to digital tools. With declining COVID-19 curve and as the economy gradually marches towards recovery, the residential real estate sector started witnessing positive momentum on the back of various measures taken by the government. During Q1 FY 2022, we did new sales bookings of 11,249 square feet, wanting to a total sales value of Rs. 11.43 crores.

As appraised you on the last earnings call, in the financial year 2022. our ongoing project Forest Edge tower A & B, and Vascon Goodlife three buildings in Phase 1 will achieve completion and occupancy certificate will be issued for all the projects. Under IndAS 115, the revenue of the projects amounting Rs. 90 crores will be recognized in the current fiscal. This will lead to significant improvement in real estate business performance in FY 2022. The company's launch pipeline to remain robust, considering the current market condition we continue to maintain a cautious stance over new launches. We are monitoring the market very closely and would opt for launching new projects only when the market is conducive for new launches.

On GMP business front, our GMP business is faring well. In Q1 FY 2022, the revenue stood at Rs. 36 crores and EBITDA of Rs. 2.5 crores, with margins of about 7%. We remain committed towards strengthening our balance sheet by repaying high cost debt and deleveraging to further improve the liquidity position of the company. Despite the challenging environment, we have made the debt repayments of Rs. 45 crores in the last 15 months, demonstrating our commitment to the debt reduction. The total gross debt now is at Rs. 210 crores as against Rs. 255 crores as on March 2020. The repayment is majorly made towards high cost bearing loans. In accordance with this commitment, the company intends to raise Rs. 70 crores via a preferential share offering. Funds will be utilized towards repayment of high interest bearing loans and financing of the incremental working capital requirements.

Let me take you through the financial performance. Let me start with the standalone numbers. During Q1 FY 2022, the company reported a total income of Rs. 78 crores as against Rs. 36 crores in Q1 FY 2021, and reported net loss of Rs. 7 crores in Q1 FY 2022. On a consolidated basis, in Q1 FY 2022, the company reported a total income of Rs. 114 crores as against Rs. 45 crores in Q1 FY 2021 and reported a net loss of Rs. 7 crores in Q1 FY 2022.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Himanshu Upadhyay from PGIM India Mutual Fund. Please go ahead.

Himanshu Upadhyay: Sir, I had two questions on the real estate business and then on the EPC business. So, this is related to some answers you gave in the last quarter on the real estate business and your thoughts on it. Okay. So, I was thinking on that, that you believe it's a glorified EPC business, the real estate business. But a business where you can charge certain premium, you yourself stated that we are able to get 10% premium to our competitors in those micro markets where we are present, where again you can sell faster. Do you still believe it's an inferior business to an EPC where to win a business you will always need to be the cheapest cost producer or L1 bidder and you cannot increase the cost in between if labor cost or anything goes up?

So, why such a dichotomy, because what we are seeing is more consolidation is happening in real estate, regulations are becoming tighter and more clarity is there, cost of funding is also becoming lesser for the organized players. And we are already established player in some of the micro markets, especially let's say a Pune type of market where you stated. But still you believe it is lower business than your EPC? I could not understand your thought process with which you coming. So, that was the first question.

Dr. Santosh Sundararajan: Sure. I will take that first. No, I think there is a misunderstanding in your understanding of what we intend when we say we look at real estate as glorified EPC. There is no doubt it is not a lower form of business than EPC in any way, the margins are still higher than EPC. And everything you said about real estate consolidating, about the playing field becoming better for good reputed builders like us, everything is right, we do acknowledge and accept that. And we have a brand, we have a big brand in a place like Pune, and we intend to concentrate primarily in Pune on real estate. See, the only hitch in real estate, if you want to play it the traditional way is investing. It is capital intensive, if you want to start from land. So, when we say as a policy in Vascon we do not want to put capital on acquiring land, we would leave land ownership to landowners, we would probably raise a bit of finance from financial partners. And we would concentrate on our expertise, which is getting approvals, making a good design, using our brand, selling, and then constructing a good quality product, and commanding that premium which we have always commanded.

So, we are working in that direction only on securing ourselves, projects in Pune on a joint venture basis, where our investment would then be restricted to the cost of launching the project, cost of getting approvals. So, with the same capital, we would look to launch a few more projects rather than buy land. So, that's why we say we are happy to be looked at as glorified contractors in that we will keep land and a little bit of maybe a little bit of finance first out of our purview and concentrate on the execution parts of real estate. But no, in no way are we saying that it is inferior to EPC or that our concentration is going to be more on EPC and we are going to diminish our real estate or any such thing. We will be looking for opportunities in real estate. In

fact, we will be setting targets to grow real estate within the Pune a market. But on this basis of you know joint venture where our exposure is to construction, sales & marketing.

Himanshu Upadhyay: Okay. And the second question was, what we are hearing is, because of COVID and the slowdown what has happened in real estate, the expectations of land owners have at least reduced to what they were three or four years back. And hence it becomes more interesting to buy outright or do JVs as better projects are coming up. So, what is the situation in our primary market, Pune, where we are? And how do you see that market to grow and the business model what we are trying to inculcate of being in niche markets where we can get a better premium. So, in those markets, what is the situation on land and getting JVs, can you give us some insights on that?

Dr. Santosh Sundararajan: Yes, you are right. See, the expectations in some pockets of landowners, I mean, see there are both sides, some landowners haven't budged, they still have their skyrocketing expectations. Some landowners do bring down their expectations with time. And the FSI rules have changed with new policies coming in from the government, with road widths different. Now Pune is able to construct a lot more on the same land than it was able to five years ago. So, in most lands with good road frontage, the FSI utilization has been increased. So, again, the landowner sometimes builds that into his expectations on a joint venture basis. So, these supply demand situations keep happening. We keep meeting landowners, we keep seeing good lands in niche markets, in prime lands as close within the city boundary as possible, even if the project is small. And we will be shaking hands as and when we see the Excel sheet making sense to both parties, we will definitely be signing up ventures. We are in talks with quite a few people currently.

Himanshu Upadhyay: Would it be right to say that the number of deals which we would be following currently would be higher than what would be two years back or three years back we would be looking in those markets?

Dr. Santosh Sundararajan: Definitely. See again, even glorified contracting, real estate still needs a little bit of capital, of course, much lesser than trying to invest in land, but we would still have to put in capital to start a project to the extent of approvals and launch. So, there is still an investment, unlike EPC, which is capital free, real estate would need capital, approval costs have gone up, as I said, since FSIs and TDRs can get loaded, the buildability has increased, the cost of getting approvals upfront has also gone up. So, there is a kitty needed to even start a project even if you are not buying land. We have been focusing on utilizing all our cash flows over the last two, three years in trying and reducing our existing debt. So, we actually pulled out cash flow to pay upfront money and invest on real estate projects in the last three years. Now, with this preferential issue as well as with our current discipline and focus, we have already brought down our debt quite a bit. I think this financial year would be the last year where we are going to be only focusing on debt reduction. Hopefully that as a target would be achieved. Not only hopefully, I think it will definitely be achieved this year. And then whatever cash flows, our business is accruing, whether it is EPC, real estate, or by sale of assets, further whatever cash flows we are able to generate,

we will be only investing. As I said EPC doesn't need huge investments of cash flows, so those cash flows will be invested in launching these kind of niche projects in Pune. And yes, so you can expect us to have more launches in the next 12 to 18 months then we have had in the past or more tie ups at least.

Himanshu Upadhyay: Okay. And one more thing, in one of the calls we had stated that we are looking at EBITDA margins of 17% to 20%. So, it is blended at the company level or EPC, what type of margins we are trying to make? Because our margins have been very volatile, that's why the question. So, generally what orders we are getting, what type of margins we are wanting?

Dr. Santosh Sundararajan: See, our margins keep looking volatile quarter on quarter because we our balance sheet reflects both RE and EPC together. And that's why we always in our investor presentation, for the last three, four years, we have been sharing quarter on quarter the split between the two businesses. So, if you take a look at that, you will see that the EPC business has been fairly stable in that its gross profit or its EBITDA has been anywhere between 16% to 20% over the last few quarters. And so EPC currently, even this quarter, with a diminished performance of top line, the EPC gross profit margin has been 17%. Real Estate quarter on quarter keeps changing because of the revenue recognition methods. You can only recognize it when completion happens. So, it's extremely volatile, like you said, it's very difficult to plot some linearity to it. But if you analyze the business, when we take up real estate, even glorified contracting real estate that we talk about, will easily give you 25% to 28% or 30% returns, whereas EPC will give you only gross profits of between 15% and 20%, we're stabilizing around 17% and 18%. In EPC, we are fairly happy with that, if we can maintain that and continue to steadily grow our top line, at those kind of EBITDA I think earnings should be fairly well. Real estate, we haven't stabilized to those levels yet over the next couple of years as we take up new projects and launch them I think this will stabilize.

Himanshu Upadhyay: And in the real estate small project, how is the intensity of competition in the businesses? Means the type of projects what we are trying to do, can you give some insight on the competition and intensity of competition in those places?

Dr. Santosh Sundararajan: See, real estate as a market has seen a huge amount of consolidation. So, pan-India, in fact if you see, the organized market or the share of organized developers has now crossed 20%-22%; Pune, it will be in excess of 25%, 28% So, as far as competition is concerned, definitely in fact the larger developers are taking a greater pie, a lot of new developers are stepping into Pune because Pune definitely is one of the most kind of promising markets, if you see the inventory overhangs. The other macro economic factors, low interest rate, lesser inventories is common across the country. But in terms of inventory, in terms of a robust IT sector, in fact a robust employment scenario as far as Pune is concerned, definitely this has attracted. And the volumes which Pune is throwing, it has been stabilized, on the pricing front also there is there is not much variation as far as the city is concerned. So, definitely, this is attracting larger interest. And it is also seeing

a lot of smaller developers diminishing from the market, if you see, at one point of time lesser than maybe 100 units you had 2,500 projects, it will be less than 2,000 projects currently, in fact, as we speak. So, smaller players slowly, slowly are being driven off the market and larger players will take a larger share. Having said that, in fact, we fall typically in the organized market, our focus has always been city-centric projects. City-centric projects, in fact, because of the location and because of we are having a strong brand presence, in fact, we will play on our strengths, and definitely the plan that we have and the existing projects at hand that we have are in locations which we are very, very confident that can be easily sold. So, selling typically will not be absolutely any issue as far as Vascon Engineers is concerned.

Moderator: Thank you very much. The next question is from the line of Rohit from Antique Stock Broking. Please go ahead.

Rohit: My question is more on the preferential issue, we have a debt of 138 crores, how much will be the preferential issue addressed to that debt? And what will be the revised interest cost annually we will be running at?

Dr. Santosh Sundararajan: I will not be able to give you an exact number, because this will be a decision taken by the Board closer to the date of availability of funds. But as we have stated in our outcome of the board meeting, as well as in the AGM notice that will be going out today, the primary purpose of raising this was primarily to reduce high-cost debt as well as a small portion of it to be used towards funding a little bit of growth of business. So, the exact split I wouldn't want to put number here.

Rohit: So, let me ask this question in a different way. You incur anyway Rs. 25 crores on our standalone interest cost, and what is a component of this interest outgo the amount addressed towards the debt portion as well as the finance charges that you do particularly for non-fund-based limit and other such activities.

Dr. Santosh Sundararajan: Let me put it this way, even today we have an outstanding of about Rs. 65 crores towards Windermere, as of June it was Rs. 64 crores of debt outstanding towards the Windermere project and a couple of other real estate projects. We will be looking at least by the end of the year, by way of utilization from preferential as well as by way of utilization from sales we make over the next six months, the target is to bring this debt down close to zero. So, you can say we eliminate about Rs. 60 crores of debt. As we speak, from July end to now we are already down to Rs. 58 crores, so we brought 64 down to 58 over there already. So, we could assume or this is our internal target that we will get done with this debt. That debt is currently at 15%, so Rs. 60 crores at 15% even now is about Rs. 9 crores a year hitting our P&L, next year we should not have that.

Rohit: Okay. Sir, my second question is on the EPC, there earlier we were talking about Rs. 700 crores, but considering that we are in a COVID base, we have got that execution target for this year

target at Rs. 500 crores. Is that the target impact? I mean, it should be possible, right, do you see any slow-moving projects or do you see any risk of....

Dr. Santosh Sundararajan: So, I will just correct you, the target is EPC plus real estate, real estate will be contributing whatever Rs. 60 crores, Rs. 70 crores, Rs. 80 crores. Standalone target was what you mentioned, yes, the standalone target of Rs. 500 crores, even now our target, I think we are in a position to achieve or exceed that a little bit. The first quarter we have done Rs. 70 odd crores. That was also because not so much to do with labor availability, this time COVID didn't throw us a labor challenge, I think the labor got smarter, they didn't run away, they stayed at work, they knew they gained nothing by going anywhere. I think that fear didn't spread to the labor. And in fact, fortunately, the disease didn't spread to the labor either. So, most of our sites had their labor there, and without COVID entering our labor camps. Problem this time was more to do with payments coming, because our exposure was to government clients. And while we are always normally happy about that fact that we are exposed to government clients in this period, but in this period many government bodies had to hold their payments being made to projects when they were forced to look at emergency situations in terms of healthcare, whether it is state or central.

So, I think there were lags in payment starting from June/ July. Those have been set right now, things are back to normal, we have got paid for the work to be done in May and June. But for a while the payment came late and therefore our work was also reduced. And Raipur project was stalled, I think I did inform this in the previous call that Raipur project as a measure from the state government was stopped, and that was giving us a good hit rate of more than Rs. 10 crores a month, so that that top line disappeared for at least two months in the last quarter. So, that is why we took that top line hit compared to our projections in the first quarter. But second quarter onwards now the good news is, this month onwards Raipur has also given us a go ahead to restart works and all other projects have made their past payments, so the work has picked up. So, we should not be seeing any kind of a dip going forward, fingers crossed, third wave not affecting us that much. So, I think yes, we will be able to catch up. Given the situation today, we will be able to catch up on the lost ground of quarter one and in the next two, three quarters. And by the end of the year, Rs. 500 crores can still remain our target, we shall achieve that.

Rohit: So, just to touch on the receivables part, what is the current receivables and overdue receivables that you have as of now?

Dr. Santosh Sundararajan: So, the overdue receivable if I classify them as more than three months, I think we will get back on the exact numbers in terms of balance sheet. But from the existing projects, from the running projects we do not have significant overdue receivables from any of the clients. That is also because whenever the receivable goes to beyond a month, as a policy, if we were keeping our progress on in the month of June, we would have done Rs. 10 crores, Rs. 15 crores more of top line in the quarter. But the moment we realize that the government is not paying us for the work

done in May, we deliberately slowed down. It has always been our policy that we will not be funding any client, government or private beyond a month and a half of exposure, so we take that call to immediately slow down, we did that as well in line with our policy. And now we have again brought these projects back to track. So, the outstanding does not pile up with this kind of a strategy and even now we do not have a huge outstanding in any live running project.

Rohit: Sir, my final question is on the non-fund base limits, I believe, we have some Rs. 60 odd crores of non-fund based limits, which can support Rs. 600 crores kind of execution. Is that my fair understanding or has it improved by this court or has any bank given you any additional limits?

Dr. Santosh Sundararajan: No, this quarter we do not have any additional tie ups. The BG limits remain in that range, Rs. 50 crores to Rs. 60 crores utilized BG limits will remain in that range. We have used a bit for our Lucknow project, we have got two projects in Lucknow, we have drawn down a bit of advanced from there. But some old BGs are also coming back. So, you're right in saying plus/minus on a general basis we have that kind of a limit available which will help us book that kind of an order book Rs. 600 crores to Rs. 700 crores. So, we will be taking that as a target going forward.

Rohit: Just one more question, if I may squeeze in, is on to do with the order inflow part. I mean, I understand Rs. 500 crores to Rs. 600 crores is anyways given, that will be the order inflow. Anything beyond that are we looking at, some big ticket numbers, big ticket projects, anything statistically that we want to move to the next leg?

Dr. Santosh Sundararajan: So, strategically, one thing I would like to discuss on the real estate, we would like to tie up some projects in the next few months. Because, we do see benefit there on the JV basis in Pune. On EPC, again, as our BG limits, we will be continuing to work with our consortium of bankers to get our terms in a better way, with this preferential raising we will first work on our rating, hopefully, we will get improvement in our rating, with that we will be able to renegotiate with our consortium of bankers to give us more preferable terms in terms of the margin monies we expect and in terms of the collateral they expect. So, then we will be able to get a better assessment, also our top line will be increasing. Unfortunately, because of COVID last year, we couldn't show an increase in top line or bottom line, this year definitely we will be able to achieve that. So, with these things happening, our bankers would revise, we would be able to get a better deal in terms of a higher assessment for non-fund limits. And once we get another Rs. 50 crores of non-fund limit tied up, we will be bullish on booking another Rs. 700 crores, Rs. 800 crores of order. So, it's a process, it's a chicken and egg, we get order, then we go back to the bank, we keep augmenting our limits when we keep getting orders. So, yes, the process will continue and this will grow, this whole sizing of our ability to book orders will grow.

Rohit: So, to summarize this portion, you keep on saying in your investor presentation that you have been doing 3 million square feet and 8 million square feet is what your EPC potential is. But the BG or the non-fund based limits that's the binding factor to take you up to the next level.

Dr. Santosh Sundararajan: So, you are right, in terms of execution I still feel until we reach a level where we are executing Rs. 700 crores, Rs. 800 crores a year of work, third party as well as our internal work in terms of execution, we have bandwidth for both machinery and staffing in place, so that is still not a constraint. I have mentioned this over the last two, three years, we have still not reached that constraint yet. Actually the last year the constraint has been COVID more than anything else, because we have orders in hand also. So, we should have touched more than Rs. 500 crores, Rs. 600 crores even with the orders in hand. But we didn't, because of COVID. This year, we will at least push that limit upwards, and then the BG limits will open up. As I said, even now we have Rs. 2,000 crores of order book, which even if you say is three years worth of orders, we should be able to do Rs. 600 crores, Rs. 700 crores. Again, COVID has hit us in the first quarter. But if all these orders pick up full pace, even with our fresh order booking I should be able to achieve more than Rs. 600 crores, Rs. 700 crores this year and next year, at least next year for sure. So, BG limit is a constraint in taking more orders and accelerating growth. But as of now, I think orders in hand is sufficient for the next two years to focus on execution. And BG will definitely grow, BG limits will grow.

Moderator: Thank you. The next question is from the line of Priyanka Rao, an individual investor. Please go ahead.

Priyanka Rao: First of all, congratulations on the results and the preferential issue as well. Sir, just wanted to ask your outlook on the GMP business for the current fiscal year, and what kind of revenues we are looking at.

Dr. Santosh Sundararajan: So, GMP currently has an order book of Rs. 180 crores. So, we would also be looking to achieve similar kind of turnover for the year, somewhere in the range of anywhere between Rs. 160 crores and Rs. 200 crores for the year. And EBITDA should improve from last year. I think we are looking to at least to get into double digit profit this year in GMP with that kind of a top line.

Priyanka Rao: And we also have a huge pipeline of real estate business, so what are the launches which will happen in this fiscal year and the next fiscal year?

Dr. Santosh Sundararajan: Yes, we have a pipeline of real estate business, this COVID has hit the approval process big time on all those projects. The earliest we can see, Coimbatore going to launch, that would come in the last quarter of this financial year. If we are lucky, we should also have the Kharadi approval by then or maybe in the first quarter of the next financial year. So, that is pretty in hand currently as far as the real estate is concerned.

Priyanka Rao: Okay. So, basically we are saying Coimbatore may happen in this fiscal year and Kharadi goes to next?

Dr. Santosh Sundararajan: Yes.

Moderator: Thank you. Next question is from the line of Shruti Verma from Shah Investments. Please go ahead.

Shruti Verma: Sir, I just wanted to understand the tendering activity has been subdued in the quarter due to the second wave of COVID-19, so how is the ordering activities from government panning out now?

Dr. Santosh Sundararajan: In the last quarter, the government was too busy with other things, so a lot of projects that were supposed to be tendered out were postponed, you are right. And we were also not in a position to move out and go and attend site visits and bidding, I think that activity took a backseat. We were okay with that, because we do have an order book in hand, we are focusing more on execution as of now. But these orders are now opening up, step by step government orders are getting listed. So, we will continue to participate, be cautious. We are not desperate, but we will achieve our targets of order booking at the kind of terms we want to achieve them.

Shruti Verma: How much order inflow do we expect for this year?

Dr. Santosh Sundararajan: So, our target as I said with BG limits in the hand, our target is another Rs. 500 crores, Rs. 600 crores, so that at least the minimum we have to do is what we diminished this year, we get that back so we ensure that our order backlog doesn't drop too much at the end of the year. So, that's a target, minimum, for the year.

Shruti Verma: Also in terms of sales, if I could understand the status of our Windermere and Vascom Goodlife, just to understand how many units have we sold during this quarter.

Dr. Santosh Sundararajan: In the last quarter, in fact, in Goodlife we didn't sell any of the units, in Windermere, in fact, we sold one duplex. The overall inventory division as far as between us and the other partner that is available in Windermere, in Windermere we don't have anything except a couple of bungalows to sell. And in terms of value, if you see, in fact, we have Rs. 50 crores worth of inventory as far as Windermere is concerned with just two bungalows. If we include the landowners' inventory, which is Rs. 25 crores. As far as Goodlife is concerned, in fact, we have sold roughly 384 units and 234 units are to be sold as far as Goodlife is concerned. Considering Rs. 66 crores of already value of units sold Rs. 27 crores balances to be received, and the balance construction of the sold part is close to Rs. 13 crores odd. So, we have surplus even after paying the existing debt which is there on Goodlife which is Rs. 24 odd crores. So, the current strategy as far as Goodlife is concerned, because we have been into multiple lockdowns since the past one and a half year, it being an affordable housing project, we do some activity, we do some sales activity and then what happens, it is not fluctuated into a site visit and hence, in fact we keep on wasting this precious marketing budget. So, therefore, as a strategy, in fact, we are focusing now on completing the project, once the project is complete, then it will be much easier for us to sell. And also, it will give us the time where we have more certainty in terms of COVID. So, as far as we are fully confident that third wave is not going to effect, because that project being far off from the city, it will need more certainty in terms of site visits, and the commitment in spends

from our end. So, in terms of overall just to brief in nutshell, in fact, we have Rs. 80 odd crores worth of inventory, which is roughly two quarter sale, which is much, much less than the average inventory overhangs.

Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: Sir, my first question would be around raw material front. So, I understand that there is an inflation in our raw materials, and I just wanted to understand how much of this we can pass it to our customers.

Dr. Santosh Sundararajan: So, from the EPC front, in all our projects, we have a pass through for cement and steel, yes, there has been a drastic increase in the price of steel over the last three, four months, five months. And this fortunately for us is base rated in most of our contracts, except one or two. So, everywhere else it is a pass through, we have paid as per the prevailing price every month. For one or two projects where we have an government index which gives us our escalation, there is a mismatch between the actual escalation on ground and steel and what the index calculates. So, we do have a marginal hit over there. But we have already negotiated with these clients. We have already put across the calculation to them saying we are not in a position to take these hits, and that the intended escalation is not achieving its intent. And the client is considering, so we are positive that even this little bit of risk that we have we will mitigate it with our negotiations. So, I would like to say that we are not having any hit on the EPC for these the raw material price increases, labor has not drastically increased. Labor generally is not a pass through, but that has not drastically increased, so we do not have a problem. On the real estate side, yes, luckily for us in the projects, both Katvi, Windermere and Forest Edge and Xotech, all the four projects that we are selling or we have sold, the RCC portion of it has been completed well before and we are only in the finishing stages. So, in the last four or five months, we have not bought any steel in these projects, so this has not hit us, otherwise we would have had an issue because going back to each customer with escalations would have been tough, but it does not hit us.

Mihir Desai: Sir, also on the land bank which we have, so is there any visibility of liquidating any of them for this fiscal?

Dr. Santosh Sundararajan: So, we have Aurangabad land, which we are focusing and trying to liquidate. Other than that, we do not really have a land bank we want to be liquidating. Thane is a long term story. Aurangabad we are focusing and trying to get it liquidate.

Mihir Desai: Okay. And sir, one I wanted to ask on the macro front, like during this Independence Day, there has been this Gati Shakti which has been announced for Rs. 100 trillion, will this add on to anything for us also, like do you see any opportunity on the ground which we can also materialize through this scheme?

Dr. Santosh Sundararajan: See, in the larger infra space I think we have a small participation only. So, I don't think it's highly material for us.

Mihir Desai: Okay. Sir, basically, now I see that there has been a preferential issue, where there have been strategic investors who have been participated in the fundraise. So, being investors, rather than focusing on one or two quarters or one year, I want to ask you that, so we are long term investors sitting in company, riding the journey of the company, how do you see that we perform or what is our vision of as Vascon Engineers five years from now? That's what I wanted to ask you.

Dr. Santosh Sundararajan: That's a long period. But yes, we do have our internal discussions on this front, we do have a target that we set ourselves as a team. As I said, two things we have always been saying very clear, we will be getting out of all other businesses, we will be focusing only on two businesses, one is EPC for third party, and one is real estate whereby we intend to pay out of investment in land, even if we accrued cash flows by sale of other assets and by growth of business going forward. We will judiciously use these cash flows to tie up more joint venture projects in real estate in Pune. And we will stay shy of attempting real estate in most of the cities. We do have a presence in Coimbatore, so maybe a little bit of Coimbatore we would finish and Pune, we would not be attempting to grow geographically in real estate. EPC, we will grow geographically, we are in most cities, we might enter new cities, and we will continue to grow our order book. Five years is far away, within the next two years we want to see Rs. 1,000 crores top line, we want to see Rs. 100 crores bottom line. I mean, these are not predictions I am giving these are just internal, I would say, I wouldn't use the word dreams, targets we set for ourselves as we come to work daily. So, these two areas of business would be the areas where we will grow. We will concentrate all our bandwidth, our energies and our capital in these two directions. We will try and release capital from all other directions that we have money invested in our balance sheet.

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

Vikram Damani: Just a follow up on something you mentioned earlier. The Aurangabad land that we are liquidating, how much can we expect from that? How much are we targeting from that sale and how much land do we have in Thane?

Dr. Santosh Sundararajan: Aurangabad, the negotiations are going on, anything upwards of Rs. 30 crores is what we will realize from that sale of land. And in Thane, so Thane land is held in a third company, we have 150 acres of land in that company. And we are I think 45% owners in that company.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the management for closing comments.



Vascon Engineers Limited
August 17, 2021

Dr. Santosh Sundararajan: Thank you all for your participation. Wish you a great day. And you could please connect with Stellar Advices for any further queries that you may have. Thank you. And I will see you again next quarter.

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