



Vascon Engineers Ltd

 Relative to sector: **Outperformer**
Chirag Negandhi

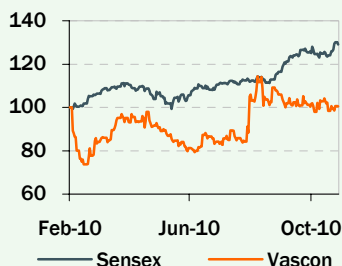
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 90 mn
Market cap	: Rs 8.5 bn
52 week high/low	: Rs 196/ Rs 93
Avg. daily vol. (1mth)	: 144,200 shares
Bloomberg code	: VSCN IB
Reuters code	: VASC.BO

Shareholding (%) Dec-10 QoQ chg

Promoters	: 38.7	0.0
FIs	: 0.9	0.0
MFs / UTI	: 3.4	0.2
Banks / FIs	: 0.0	0.0
Others	: 57.1	(0.2)

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)	Valuation (Rs)
2009	4,832	193	2.1	44.0	5.4	9.3	Target price 150.0
2010	7,381	533	5.9	15.9	10.0	13.1	Upside (%) 59
2011E	9,383	660	7.3	12.9	9.4	12.0	
2012E	12,437	1,128	12.5	7.5	14.3	17.8	

Source: Company; ENAM Research

STRONG ORDER INFLOWS; REALTY STILL TO KICK IN

Vascon Engineers Ltd (Vascon) reported revenues of Rs 2.16 bn (up 4.2% QoQ), EBITDA of Rs 160 mn (up 34% QoQ) and PAT of Rs 54 mn (down 69% QoQ) on a consolidated basis for Q3FY11. Margins remained subdued sequentially primarily on a/c of: a) higher employee costs (increase in salaries and headcount) and b) higher sales expenses. However, fresh third party orders to the tune of Rs 2.8 bn in Q3 as well as Rs 1.3 bn in Jan'11 are comforting.

Key highlights

- **Contractual business:** With Rs 2.8 bn worth of new orders in Q3, Vascon's EPC order book now stands at Rs 41 bn with a backlog of Rs 27 bn (50% 3rd party).
- **Low operating margins** on a/c of: a) Escalation in project costs (to be passed on to clients and recognized as revenues in subsequent quarters); b) increase in employee headcount (integration of GMP added ~500 emp. taking total to 1,452 (741 in Apr'10)); c) increase in salaries (ex-gratia bonus linked to completion of projects, paid & recognized in Q3); and d) higher sales and promotional expenses.
- **Real Estate business:** For 9MFY11, Vascon has been able to sell 1.04 msf of realty projects totaling Rs 2.3 bn (Vascon's share) of which the company has so far collected ~Rs 0.6 bn.
- Full year guidance provided by the company stands at: revenues of ~Rs 9.5 bn (Realty: Rs 1-1.5 bn; Contractual: Rs 7.75 bn; GMP: Rs 0.7 bn) with a PAT margin of ~8%.

Valuation & Target price

Strong order inflows provide good visibility for Vascon's contractual revenues in the quarters to come. However, margins have contracted significantly due to integration of GMP and increase in employee and other costs. Thus, we have revised our contractual margin estimates downwards by 150 bps, while increasing our discount rate to 16%. At CMP of Rs 94, the stock continues to trade at a discount to our fair value. We maintain our **BUY** rating with a TP of **Rs 150 (upside of 59%)**.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net revenue	2,158	1,586	36.1	2,071	4.2	9,383	7,381	27.1
EBITDA	160	227	(29.4)	119	34.1	929	941	(1.3)
Other income	9	17	(48.6)	182	(95.1)	291	145	100.0
PBIDT	169	244	(30.8)	301	(44.0)	1,220	1,087	12.3
Depreciation	39	22	78.5	34	16.0	122	78	56.3
Interest	49	50	(2.6)	49	(0.8)	182	234	(22.2)
PBT	81	172	(52.9)	218	(63.0)	916	774	18.2
Tax	25	34	(26.2)	41	(37.8)	256	242	6.0
Minority Interest	2	(0)	-	4	(57.9)	(1)	(1)	0.0
Adjusted PAT	54	138	(60.8)	174	(69.0)	660	533	23.8
No. Of shares (mn)	90	79	-	90	-	90	90	-
EBITDA margin (%)	7.4	14.3	-	5.8	-	9.9	12.8	-22.3
PBIDT margin (%)	7.8	15.4	-	14.6	-	13.0	14.7	-11.7
EPS - annualized (Rs)	2.4	6.9	(65.5)	7.7	(68.9)	7.3	5.9	23.8

Source: Company, ENAM

Key balance sheet data

Particulars (Rs mn)	Q3FY11	Q2FY11	Q3FY10
Capital	900	900	792
Reserves & surplus	6,107	6,053	4,004
Total Loans	2,567	2,568	2,167
Minority Interest	71	69	75
Fixed Assets	2,491	2,382	1,046
Investment	783	833	851
Deferred Tax Asset	17	20	11
Net Current Assets	6,364	6,361	5,132

Source: Company

EPC Projects completed during Q3FY11

Projects	Location	Type	Total Contract Value (Rs mn)
Ruby	Mumbai	Commercial	1,818
Neelkanth Palacia Mall	Mumbai	Commercial	899
Zircon Hotel	Pune	Hospitality	268
Kirloskarwadi (Houses & Hostel)	Pune	Residential	150
Sulzer India	Gurgaon	commercial	935
81 Koregaon Park	Pune	Residential	382
Victor Reinz	Pune	Industrial	848

Source: Company

Sales performance in Q3FY11 and 9MFY11

Location	Q3FY11 Area Sold (msf)	%	Period	Area Sold (msf)	No. of units sold	Avg. Sales Value (Rs bn)
Pune	0.15	71%	H1FY11	0.83	460	3.4
Nashik	0.03	15%	Q3FY11	0.21	112	0.9
Coimbatore	0.03	13%	9MFY11	1.04	572	4.3
Total	0.21					

Source: Company

Other key highlights

- Q3 revenue break-up – Contractual biz at Rs 1.58 bn (vs. Rs 1.67 bn in Q2), Real Estate biz at Rs 250.8 mn (vs. Rs 135.5 mn in Q2) and Manufacturing biz (GMP) at Rs 327.1 mn (vs. Rs 240.3 mn in Q2).
- Real estate revenue was driven by contribution from projects such as Zircon (Rs 109 mn), Vista (Rs 95 mn), Willows (Rs 32 mn) & Hyatt (Rs 16 mn).
- The company has bagged order worth Rs 1.35 bn from Adani Group for Phase 2 of its Shantigram project in Ahmedabad, which is a large project with strong prospects of further orders.
- Forthcoming projects include ELA – The Earth (Residential) in Hadapsar, Pune; Xotech (Residential) in Hinjewadi, Pune; Nature Springs (~50 acre Township) in Talegaon, Pune; a residential project in Hyderabad; a mixed development (~30 acres) in Ramilnadu (Neelambur, Coimbatore) and a mixed development project (Resi & Comm.) in Madurai.

New EPC orders bagged during Q3FY11

Party	Location	Type	Gross Value (Rs mn)
Park Spacio - BPTP	Haryana	Residential	520
Park - Amstoria - Phase I - BPTP	Haryana	Residential	1,297
Cipla QC Laboratory	Maharashtra	Industrial	18
Cipla Bio Reactor	Maharashtra	Industrial	15
Cipla 3 - Patalganga	Maharashtra	Industrial	104
Parthenon - Ecstasy Realty	Maharashtra	Industrial	850
Total			2,805

Source: Company

EPC – Key Ongoing Projects – 3rd Party

Contracting Entity	Location	Type	Est. Contract Value (Rs mn)	Order Backlog (Rs mn)	Exp. Completion Date
TN Assembly complex (Block - B)	Tamilnadu	Commercial	2,109	1,788	Feb-12
Park - Amstoria - Phase I - BPTP	Haryana	Residential	1,297	1,246	Nov-12
HDIL	Maharashtra	Commercial	1,791	940	Oct-11
KONDHWA Realty	Maharashtra	Residential	999	867	May-12
Parthenon - Ecstasy Realty	Maharashtra	Residential	850	779	Jan-13
North Town, Chennai	Tamilnadu	Residential	748	681	May-12
Park Spacio - BPTP	Haryana	Residential	520	500	Sep-11
"Kshitij" Parmanandwadi	Maharashtra	Residential	564	424	Dec-11
AMBY VALLEY (VILLAS)	Maharashtra	Residential	410	371	Dec-11

Source: Company

EPC – Order Book Analysis

	No. of Contracts	Order Book (Rs bn)	Back log (Rs bn)
3rd Party contracts	67	25.5	13.6
Own Contracts	24	15.6	13.7
Total Vascon EPC Order Book	91	41.1	27.3

Source: Company

EPC – Order Book Break-up

Segmental Break-up	%	Geographic Break-up	%
Commercial	69%	Maharashtra	63%
Residential	19%	Tamilnadu	12%
Education	9%	Gujarat	12%
Industrial	2%	Haryana	9%
Hospital	1%	Delhi	3%
		Punjab	1%

Source: Company

Ongoing Real Estate projects update

Project	Willows Phase I	Willows Phase II	Vista Phase I	Vista Phase II	Forest County Phase I	Tulp Phase I	Tulp Phase II	Windermere	Total
Type	Resi	Resi	Resi	Resi	Resi	Resi	Resi	Mix	
Location	Pune	Pune	Nashik	Nashik	Pune	Coimbatore	Coimbatore	Pune	
Total no. of apartments	80	84	126	112	386	48	112	Apt - 59 Duplex - 21	1,028
Total saleable area (msf)	0.20	0.16	0.18	0.13	0.69	0.07	0.20	0.40	2.02
Area sold till Dec'10 (msf)	0.18	0.11	0.17	0.09	0.60	0.07	0.07	0.08	1.36
% Area sold	89%	69%	94%	72%	87%	100%	34%	19%	67%
Area sold in 9MFY11 (msf)	0.06	0.08	0.04	0.06	0.60	0.07	0.07	0.08	1.04
Avg. Selling Price (Rs/ sq. ft)	4,350	4,000	2,000	1,900	3,400	3,300	4,000	13,000	3,911
Project Start Date	8-Apr	10-Jul	8-Apr	10-Aug	10-Nov	10-Jul	10-Oct	10-Dec	
Expected Completion Date	10-Dec	12-Dec	10-Dec	12-Aug	12-Dec	11-Sep	12-Dec	13-Jun	
Vascon's share in JV/ JDA	56%	56%	100%	100%	50%	70%	70%	45%	

Source: Company

Ongoing Commercial/ Hospitality projects update

Projects	Location	Total Area (msf)	Start Date	Expected Completion Date
Weikfield - Block B	Pune	0.33	Nov-09	May-11
Novotel Hotel	Pune	0.34	Jan-08	Jun-11
Coimbatore - Hotel	Coimbatore	0.13	Jul-10	Sep-12
Total		0.80		

Source: Company

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