

29 September 2010

Company Visit Note

Vascon Engineers Ltd.

| Dual play on EPC and Real Estate

EPC AND REALTORS

VSCN IN:

NOT RATED

RS 170

We met the management of Vascon Engineers (VEL) to understand the business model of the company and ongoing developments in the real estate and EPC business. We are optimistic on the company and we believe that the positive business environment will continue.

Strong player in EPC business: VEL has a well-diversified presence across the country with a good execution record (~183 completed projects and 76 ongoing EPC projects) with an order backlog worth ~Rs 31.68bn, which provides a strong revenue outlook. Its in-house strength helps to maintain good margins. In addition, its foray into the real estate development business helps provide captive EPC business, especially in JVs and JDAs with land owners.

Real estate business catches up: With a portfolio of ongoing and forthcoming real estate projects aggregating 664.35 acres, (developable area of 56.8mn sq. ft.), it provides a good real estate portfolio. Also, the focus on different land and project acquisition strategies helps the company to optimise use of capital and de-risking. Its presence across all verticals like residential, commercial, IT parks, and mall and multiplexes helps further diversification.

Valuations seems attractive: The order backlog of Rs 31.68bn provides an assured top-line growth in the coming years, with incremental order flows. In addition, with the real estate development portfolio of ~31.1MSF, Vascon is well poised for reasonable cash flows. At CMP, the stock trades at 16.5x FY11E.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2007	FY2008	FY2009	FY2010
OPERATING PROFIT	749.5	1210.9	618.8	928.5
MARGINS %	20.1%	20.0%	11.5%	12.7%
INTEREST	39.3	165.3	258.6	229.4
ADJUSTED NET PROFIT	473.4	610.2	205	439.2
NPM	12.7%	10.1%	3.8%	6.0%
EARNINGS PER SHARE	13.8	8.8	2.7	4.9
BOOK VALUE	67.7	43.0	50.5	71.5
ROCE (%)	31.0	27.0	10.0	12.8
RONW (%)	33.4	23.1	5.9	8.6

Source: Company, MF Global India Research Estimates

COMPANY DATA

O/S SHARES :	90MN
MARKET CAP (RS) :	15BN
MARKET CAP (USD) :	0.3BN
52 - WK HI/LO (RS) :	196 / 119
AVG. DAILY VOL. (3MTH) :	0.2MN
FACE VALUE (RS) :	10

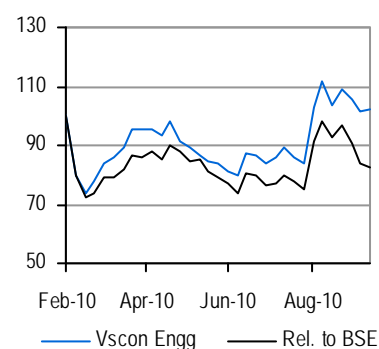
SHARE HOLDING PATTERN, %

PROMOTERS :	38.6
FII / NRI :	1.2
FI / MF :	4.8
NON-PROMOTER CORP. HOLDINGS :	52.8
PUBLIC & OTHERS :	2.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.6	16.9	-
REL TO BSE	-12.1	4.0	-

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Company Profile

Vascon Engineers Ltd. (VEL) started operations in 1986 as building contractors for factories and industrial estates. It was promoted by R. Vasudevan, civil engineer. In two years, the company progressed to designing and developing its own projects. In two decades, it started conceiving, developing, constructing and managing varied projects, including IT parks, residential and industrial complexes, malls, multiplexes, hotels and community buildings in ~12 locations across India. The Marigold project was the first to introduce the "walk-to-work" concept in Pune. Also, it has developed many IT parks in Pune and other Tier-II cities like Nashik, Aurangabad and Ahmedabad. The major clients served are Cipla, GAAR, Cummins, Kirloskar, WNS, Sandvik, Saama, PTC, etc.

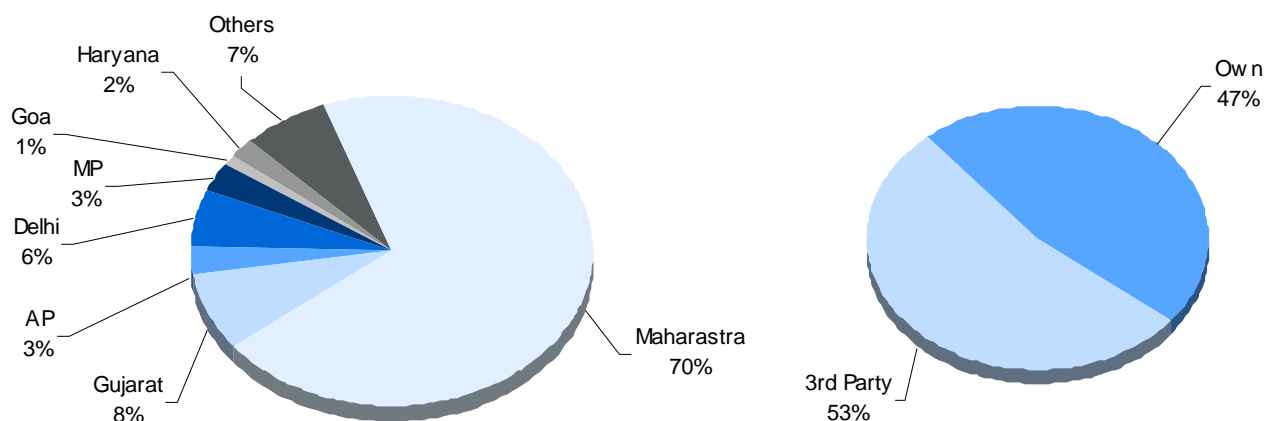
Business model—Well-diversified player

Vascon Engineers Ltd. is one among the leading companies in the engineering and development industry. The company has diversified its focus from EPC to realty development and has successfully rendered good stability to revenues. The engineering and development industry contributes the major portion of the revenue of the company and also forms a major portion of the revenues in the Indian market. Possibilities for the company, in terms of market share in India, are growing drastically due to the increase in the need for houses, and the expansion and globalisation of the Indian market. The company has adopted a JV and JDA model to optimise the capital utilisation. The company has also entered into the hospitality business with key tie-ups.

EPC business on a growth path

VEL has a robust EPC backbone across customer segments and geographies with a quality delivery track record. Its in-house strength helps the company to maintain good margins, and its foray into the real estate development business helps provide captive EPC business, especially in JVs and JDAs with land owners. VEL has a track record of 183 completed projects and 76 ongoing EPC projects. Also, with a strong order book of ~Rs 31.68bn, there is visibility in revenues, going forward.

WELL-DIVERSIFIED EPC ORDER BOOK



Source: Company, MF Global India Research

EPC ORDER BREAK-UP

RS MN.	AS OF 31ST MAR 10	EXECUTED TILL DATE	BACKLOG
TOTAL	50716	19034	31683
3RD PARTY	26894	14606	12289
OWN	23822	4428	19395

Source: Company, MF Global India Research

KEY EPC PROJECTS

CONTRACTING ENTITY	LOCATION	PROJECT DETAILS	ESTIMATED	ORDER
			CONTRACT VALUE (RS MN)	BACKLOG (RS MN)
DELHI INTERNATIONAL AIRPORT	DELHI	COMMERCIAL	2,481	1,160
TN ASSEMBLY COMPLEX (BLOCK-B)	CHENNAI, TN	COMMERCIAL	2,109	2,109
RUBY MILLS DADAR	MUMBAI, MAH	COMMERCIAL	2,074	686
HDIL	MUMBAI, MAH	COMMERCIAL	1,791	1,748
NEELKANTH PALACIA, MALL & BUSINESS CENTRE	MUMBAI, MAH	COMMERCIAL	1,333	826
CIPLA INDORE SEZ	INDORE, MP	INDUSTRIAL	1,101	84
SAVITRIBAI PHULE SHIKSHAN PRASARAK MANDAL	PANDHARPUR, MAH	EDUCATIONAL	820	564
NEELKANTH IT PARK	MUMBAI, MAH	COMMERCIAL	759	441
BPTP IT PARK	GURGAON, HARYANA	COMMERCIAL	739	14
AMBY VALLY (INTERNATIONAL SCHOOL)	LONAVALA, MAH	EDUCATIONAL	315	309

Source: Company, MF Global India Research

HEALTHY ORDER BOOK ADDITIONS

	RS BN
FY05	2.4
FY06	1.3
FY07	2.4
FY08	11.5
FY09	4.1
FY10	19.9

Source: Company, MF Global India Research

NEW ORDERS DURING Q1FY11

PARTICULAR	BUSINESS AREA	CITY	STATE	AMT (IN MILLION)
FACTORY - LEGRANDE NASIK	LEGR	NASIK	MAHARASHTRA	55.20
PHARMA PLANT GOPALDAS VISRAM	GVCL	MUMBAI	MAHARASHTRA	94.82
BHARTI REALTY LTD	BHRL	LUDHIANA	PUNJAB	300.00
NORTH TOWN, CHENNAI	NOTO	CHENNAI	TAMILNADU	747.50
AMBY VALLEY (VILLAS)	AMBY	LONAVALA	MAHARASHTRA	409.84
TATA HOUSING	TAHO	LONAVALA	MAHARASHTRA	325.50
KONDHWA REALTY (LAKE)	LAKE	PUNE	MAHARASHTRA	998.90
SMCC-YAMAZAKI MAZAK	SMCC	PUNE	MAHARASHTRA	56.62
TOTAL				2,988.39

Source: Company, MF Global India Research

Real estate business catches up

VEL has a large real estate development business with focus on different land and project acquisition strategies that helps it to optimise the use of capital and de-risking. The JV model, in some cases, helps enhance the project portfolio and share project risks. In addition, the joint development in some projects helps the company de-risk further. Further, its presence across all verticals like Residential, Commercial, IT Parks, and Malls and Multiplexes, helps further diversification. It has completed 42 development projects aggregating ~5mn sq. ft. and sold over 2mn sq.ft. The land and land development rights, with ongoing and forthcoming real estate projects aggregating 664.35acres with developable area of 56.8mn sq. ft., provides a good real estate portfolio.

ONGOING & FORTHCOMING PROJECTS

PROJECT NAME	LOCATION	PROJECT	AREA	SALEABLE AREA (MSF)
FOREST HILLS	KHARADI, PUNE	RESIDENTIAL, COMMERCIAL AND IT	51.29	4.35
GREEN PARK	VILLAGE VARALE, PUNE	RESIDENTIAL/COMMERCIAL	58.1	3.5
VASCON CITY GOLD BIZARRE VILLAGE	SANAND, AHMEDABAD NEELAMBUR, COIMBATORE	IT PARK (SEZ) RESIDENTIAL/COMMERCIAL	26	2.6
BIZARRE VILLAGE	NEELAMBUR, COIMBATORE	RESIDENTIAL/COMMERCIAL	32.7	2.55
GREYSTONE	BIRAJWADI, AURANGABAD	IT PARK / COMMERCIAL/ HOSPITALITY	14.9	1.4
SYMPHONY	THANE	TOWNSHIP (RESIDENTIAL)	145.1	18.96
CALYPSO	KHARADI, PUNE	APARTMENTS	31	2.63
CALADIUM -BAVDHAN	BAVDHAN, PUNE	RESIDENTIAL, COMMERCIAL AND IT	95	5.79

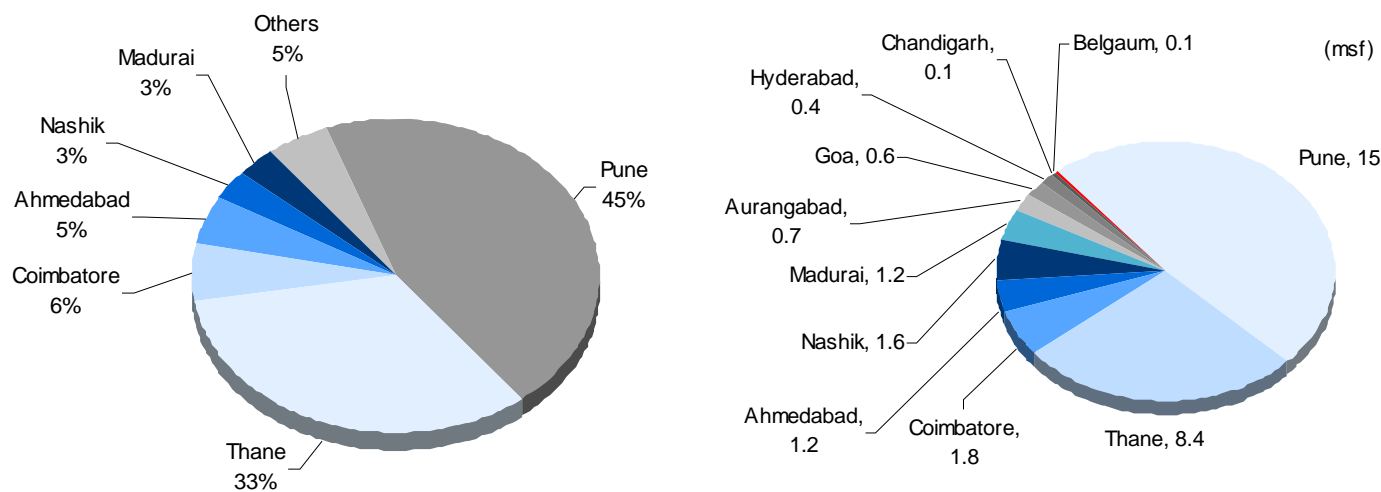
Source: Company, MF Global India Research

REAL ESTATE PROJECTS BY SEGMENT

	NO. OF PROJECTS	DEVELOPABLE AREA (MSF)	SALEABLE AREA
RESIDENTIAL	23	40.2	21.8
COMMERCIAL	30	15.8	8.9
HOSPITALITY	6	0.9	0.3

Source: Company, MF Global India Research

PRESENCE ACROSS THE GEOGRAPHIES



Source: Company, MF Global India Research

Hospitality business—New entry

Real estate and EPC business complements growth. Tie-ups with marquee names, such as Royal Orchid, Hyatt and Hilton, will likely bring in best-in-class practices and boost access to international traveller networks.

HOSPITALITY BUSINESS AT A GLANCE

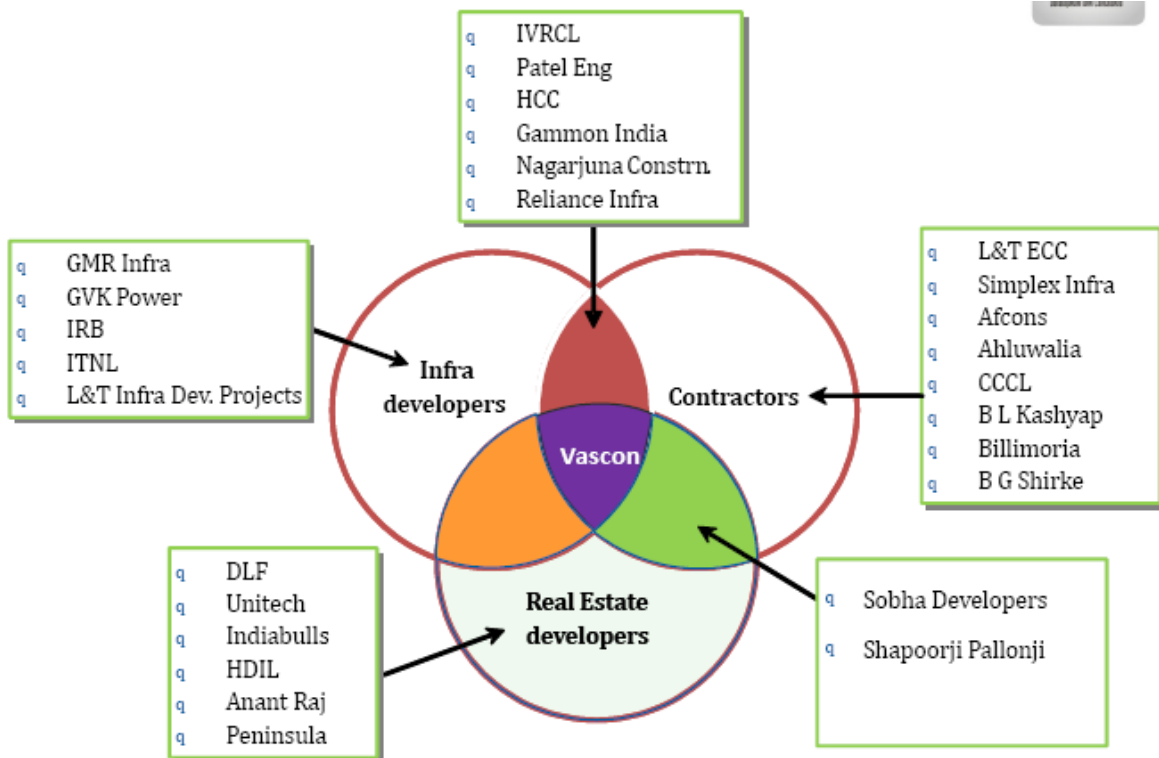
	VISTA DO RIO	RESORTS	GOLDEN SUITS	HOLIDAY INN	HYATT TO BE TIED UP	COIMBATORE
LOCATION	GOA	GOA	PUNE	PUNE	PUNE	COIMBATORE
CATEGORY	3 STAR	3 STAR	3 STAR	5 STAR	5 STAR	4 STAR
VHPLS HOLDING	100%	49%	50%	37.50%	26%	70%
NO. OF ROOMS (NO.)	41	65	71	187	297	107
TOTAL AREA (SQ. FT.)	69,363	70,000	55,000	109,769	450,000	106,500
NO. OF APARTMENTS (TOTAL)	-	-	71	-	84	-
-1 BHK	-	-	-	-	40	-
-2 BHK	-	-	-	-	27	-
-3 BHK	-	-	-	-	17	-
STATUS	OPERATIONAL	OPERATIONAL	OPERATIONAL	UNDER CONSTRUCTION	UNDER CONSTRUCTION	PLANNING STAGE
OPERATOR	CONAMORE RESORTS PVT. LTD.	ROYAL ORCHIDS	ROYAL ORCHIDS	HOLIDAY INN (IHG)	HYATT	TO BE TIED UP
OWNER ENTITY	VASCON ENGINEERS	COSMOS PREMISES	ROSE PREMISES	VIORICA PROPERTIES PVT. LTD.	ASCENT HOTELS PVT. LTD.	CASPIA HOTELS PVT. LTD.

Source: Company, MF Global India Research

Acquisition of GMP Solutions: GMP offers turnkey solutions and primarily has three areas of operations. It has a manufacturing facility in Baddi and the company was founded in the year 2005. It provides high-end clean room partition works in the pharmaceutical industry, including false ceiling complete solutions, operation theatres. This manufacturing facility boasts of the latest machinery from Italy. Other divisions, apart from the GMP's partition work, and the door works, is in to HVAC design and execution as well as electrical design and execution—these are areas where VEL, up until now, outsourced its IT buildings, hotels and other areas to third party consultants and execution. With this acquisition, VEL will also be able to add width to its project execution capabilities. The company had a top line of ~Rs 1.3bn for FY10 and achieved a bottom line of ~Rs 210mn and had a net worth of about Rs 440mn at the end of FY10. Vascon has acquired this at an outflow of about Rs 630mn and the company is confident that it will get payback in the next two or three years from this acquisition, apart from adding value in terms of projects on critical areas. VEL also intends to use this GMP manufacturing facilities to develop actual glazing in the building work.

Foray in Chennai market: Recently, VEL in association with Balakh Realtors Pvt. Ltd, has announced an investment of Rs 20bn to develop a 105-acre township. The company would be developing around 10 million sq. ft. in four phases, over a period of six years. The project is located at Oragadam, a town and industrial area located in the outskirts of Chennai, Tamil Nadu. Strategically located between Grand Southern Trunk and NH4, Oragadam is touted as Chennai's largest and most developed industrial belt. With over 22 Fortune 500 companies, of which six are global car manufacturers, the Sriperumbudur-Oragadam belt has seen tremendous industrial growth. The area is well-connected via road and rail and according to industry experts, the presence of automobile giants, such as Renault-Nissan and Ford, has triggered growth in and around Oragadam.

COMPETITIVE POSITIONING-WELL PLACED



Source: Company

Valuations look attractive

The EPC order book of the company currently stands at Rs 31.7bn which gives very good visibility of revenues over the next two years at least. The present saleable area is of the total of 31.1mn sq. ft. with a mix of JV, JDA & Owned projects that helps to diversify the revenues of the company. The robust order backlog that provides assured top-line growth in the coming years, and with the real estate development portfolio of ~31.1MSF, Vascon is well poised for reasonable cash flows in the coming years. At CMP, the stock trades at 16.5x FY11E.

FINANCIALS

INCOME STATEMENT

	FY2007	FY2008	FY2009	FY2010
SALES TURNOVER	3737	6192	5537	7485
EXCISE DUTY	0	136	166	155
NET SALES	3737	6056	5371	7331
OTHER INCOME	197	114	114	101
TOTAL INCOME	3947	6171	5485	7432
RAW MATERIALS	50	0	0	0
POWER & FUEL COST	2	4	11	16
EMPLOYEE COST	90	247	302	345
OTHER MANUFACTURING EXPENSES	2806	4222	3932	5635
SELLING AND ADMINISTRATION EXPENSES	245	429	376	481
MISCELLANEOUS EXPENSES	6	58	246	26
TOTAL EXPENDITURE	3198	4960	4866	6503
OPERATING PROFIT	750	1211	619	929
INTEREST	39	165	259	229
GROSS PROFIT	710	1046	360	699
DEPRECIATION	22	41	57	64
PROFIT BEFORE TAX	688	1005	303	635
TAX	193	357	96	197
FRINGE BENEFIT TAX	1	18	4	0
DEFERRED TAX	6	-8	-2	-4
REPORTED NET PROFIT	489	639	205	442
EXTRAORDINARY ITEMS	16	29	0	3
ADJUSTED NET PROFIT	473	610	205	439
EARNINGS PER SHARE	13.8	8.8	2.7	4.9
BOOK VALUE	67.7	43.0	50.5	71.5

Source: Company, MF Global India Research

BALANCE SHEET

	FY2007	FY2008	FY2009	FY2010
SHARE CAPITAL	354.8	726.1	759.2	900.2
RESERVES TOTAL	2048.6	2398.6	3076.1	5537.5
TOTAL SHAREHOLDERS FUNDS	2403.4	3124.7	3835.3	6437.7
SECURED LOANS	131.3	80.8	1050.1	1405.2
UNSECURED LOANS	465.5	2463.3	714.6	67.7
TOTAL DEBT	596.8	2544.1	1764.7	1472.9
TOTAL LIABILITIES	3000.2	5668.8	5600	7910.6
APPLICATION OF FUNDS				
GROSS BLOCK	314.1	516	615.8	683.9
LESS : ACCUMULATED DEPRECIATION	85.4	125	173.3	235.9
NET BLOCK	228.7	391	442.5	448
CAPITAL WORK IN PROGRESS	3.2	12.5	6.5	17.9
INVESTMENTS	534.4	1115.6	1256.8	2068.6
CURRENT ASSETS, LOANS & ADVANCES				
INVENTORIES	574	499.5	748.2	1021.8
SUNDRY DEBTORS	1557.1	2300.9	2844.2	3173.3
CASH AND BANK	56.7	490.4	200.6	427.4
LOANS AND ADVANCES	1687.1	2874.2	2606.1	3763.2
TOTAL CURRENT ASSETS	3874.9	6165	6399.1	8385.7
LESS : CURRENT LIABILITIES AND PROVISIONS				
CURRENT LIABILITIES	1286.3	1362	2276.8	2775.7
PROVISIONS	338.8	655.5	231.9	242.1
TOTAL CURRENT LIABILITIES	1625.1	2017.5	2508.7	3017.8
NET CURRENT ASSETS	2249.8	4147.5	3890.4	5367.9
DEFERRED TAX ASSETS	5.9	16.8	20.3	23
DEFERRED TAX LIABILITY	21.8	14.6	16.5	14.8
NET DEFERRED TAX	-15.9	2.2	3.8	8.2
TOTAL ASSETS	3000.2	5668.8	5600	7910.6

Source: Company, MF Global India Research

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2007	FY2008	FY2009	FY2010
KEY RATIOS				
DEBT-EQUITY RATIO	0.6	0.57	0.62	0.32
LONG TERM DEBT-EQUITY RATIO	0.54	0.54	0.54	0.23
CURRENT RATIO	2.37	2.64	2.45	2.31
TURNOVER RATIOS				
FIXED ASSETS	13.4	14.92	9.78	11.52
INVENTORY	4.93	11.54	8.88	8.46
DEBTORS	3.55	3.21	2.15	2.49
INTEREST COVER RATIO	18.52	7.08	2.17	3.77
PBIDTM (%)	20.06	19.56	11.18	12.4
PBITM (%)	19.47	18.9	10.14	11.55
PBDTM (%)	19.01	16.89	6.51	9.34
CPM (%)	13.67	10.97	4.73	6.76
APATM (%)	13.08	10.32	3.7	5.91
ROCE (%)	30.99	27	9.97	12.8
RONW (%)	33.36	23.11	5.88	8.61

Source: Company, MF Global India Research

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