



Vascon Engineers Ltd

Relative to sector: **Outperformer**

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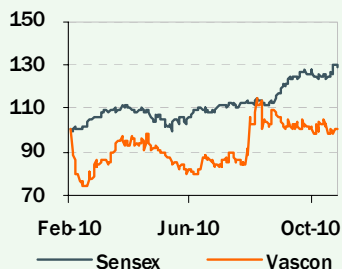
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 90 mn
Market cap	: Rs 14.7 bn
52 week high/low	: Rs 196/ Rs 119
Avg. daily vol. (1mth)	: 135,300 shares
Bloomberg code	: VSCN IB
Reuters code	: VASC.BO

Shareholding (%) Sep-10 QoQ chg

Promoters	: 38.6	0.0
FIs	: 0.9	(0.4)
MFs / UTI	: 3.3	(1.2)
Banks / FIs	: 0.0	(0.3)
Others	: 57.3	1.9

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	PAT (Rs mn)	EPS (Rs)	Change (YoY %)	Valuation (Rs)
2009	4,832	683	193	2.1	-	Target price 228
2010	7,381	1,087	533	5.9	176.1	Upside (%) 39
2011E	10,119	1,284	700	7.8	31.4	
2012E	14,164	2,611	1,480	16.4	111.3	

Source: Company; ENAM Research

REALTY REVENUES YET TO KICK IN

Vascon Engineers Ltd (Vascon) reported revenues of Rs 2.07 bn (down 2% YoY), EBITDA of Rs 119 mn (down 43% YoY) and PAT of Rs 174 mn (up 32% YoY) on a consolidated basis for Q2FY11. EBITDA margins appeared lower on a/c of revenue from land sales (Rs 83.2 mn) being classified as other income and one-time expenses of Rs 80 mn on a/c of corporate overheads (Rs 40 mn), gratuity (Rs 10 mn) and expenses relating to realty biz (Rs 30 mn) where commensurate revenue has not been recognized. Adjusted for the same, EBITDA margin stands at ~14%.

Key highlights

- **Real Estate business:** In H1FY11, Vascon has been able to sell ~0.85 mn sq. ft. of realty projects totaling ~Rs 3.4 bn. The company booked real estate revenues of Rs 135 mn in Q2FY11.
- Vascon has also acquired a township project consisting of 105-acre in Chennai under a JDA arrangement (revenue sharing basis) totaling a saleable area of ~10 mn sq. ft.
- **Contractual business:** Vascon has bagged new orders worth Rs 1,332 mn in Q2FY11. The total EPC order book now stands at Rs 38.5 bn with a backlog of Rs 26.6 bn (third party contracts stood at ~Rs 12.7 bn).
- During the quarter, Vascon also successfully completed the acquisition of GMP Technical Solution (90%) at a cost of Rs 0.6 bn. (GMP is a company engaged in the manufacturing of modular clean room partitions and office partitions apart from offering HVAC, electrical and building management systems).

Valuation & Target price

Good responses to Vascon's recent launches in Pune and Coimbatore as well as new contractual order inflow are comforting with the company on track to achieve our full year targets. At CMP of Rs 164, the stock trades at a discount to our fair value. We maintain our **BUY rating** with an upside of 39% to our target price of **Rs 228**.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-10	Sep-09	% Chg	Jun-10	% Chg	Mar-11E	Mar-10	% Chg
Net revenue	2,071	2,119	(2.2)	2,051	1.0	10,119	7,381	37.1
EBITDA	119	208	(42.6)	255	(53.2)	888	941	(5.7)
Other income	182	80	127.5	12	1,393.4	395	145	172.0
PBIDT	301	288	4.7	267	13.0	1,284	1,087	18.1
Depreciation	34	18	87.2	20	71.1	102	78	30.3
Interest	49	63	(21.5)	41	21.1	182	234	(22.2)
PBT	218	207	5.5	206	5.8	1,000	774	29.1
Tax	41	75	(45.7)	68	(40.1)	300	242	24.0
Minority Interest	4	1	-	(1)	-	(1)	(1)	-
Adjusted PAT	174	131	32.3	139	24.7	700	533	31.4
No. Of shares (mn)	90	90	-	90	0	90	90	-
EBITDA margin (%)	5.8	9.8	-	12.4	-	8.8	12.8	-
PBIDT margin (%)	14.6	13.6	-	13.0	-	12.7	14.7	-
EPS - annualized (Rs)	7.7	5.8	32.3	6.2	24.7	7.8	5.9	31.4

Source: Company, ENAM

Key balance sheet data

(Rs bn)	Q2FY11	Q2FY10
Shareholder's funds	6,953	4,648
Debt	2,568	2,129
Inventory (Projects in progress)	2,688	3,043
Loans & Advances	3,873	3,089
Customer Advances	710	N.A.
Cash & Bank	568	373
Debtors	3,891	2,336

Source: Company

Other key highlights

- The company sold ~31.02 acres of land in Pune (JDA project called Calypso of 1 mn sq. ft. wherein Vascon has a 63% share of revenues) for a total of Rs 620 mn (@ a rate of ~Rs 20 mn/ acre).
- Tax rate was lower @ ~19% during the quarter as against ~33% in Q1 on account of: a) Realty income of Rs 90-100 mn which was taxed earlier as EPC revenues but recognized in this quarter; b) sale of land which was partly done via sale of shares resulting in a profit of Rs 83.2 mn attracting a lower tax rate; and c) ~Rs 20 mn of revenue from GMP Tech which attracts lower tax on a/c of it being an SEZ.

Project Updates

Residential Projects

- **Tulips (Coimbatore)** - Phase I is already sold out and shall start contributing to revenues from FY12. Phase II now includes 2 building of 52 apartments each with an avg. size of 1200-1500 sq. ft. One building has been launched in which ~70% have already been sold. The avg. price is ~Rs 3,900/ sq. ft.

- ❑ **Windmere (Pune)** – Vascon soft launched its high-end project – Windermere – in Koregaon Park during the quarter and sold ~14% (55,482 sq. ft.). Vascon plans to officially launch this project in December 2011 in Mumbai, followed by Pune. Current selling price is ~Rs 15,000/ psf (base rate) plus.
- ❑ **Forest Hills (Pune)** - Phase I includes 9 buildings with 386 apartments (0.7 mn sq. ft.) of which the company has already sold ~90%.
- ❑ **Willows (Pune)** - Phase I includes 80 apartments with saleable area (Vascon's economic interest) of 0.3 mn sq. ft. of which ~70% is already sold. Phase II includes 4 buildings with 126 apartments (apt. size would be slightly smaller than Phase I) of which the company has already sold ~17% of the project.
- ❑ **Vista (Nashik)** - Phase I includes 5 buildings of which 3 have already been delivered. The average size of the units is ~1200-1500 sq. ft. ~80% of this phase has been sold. Phase II includes 4 buildings with apt. size slightly smaller (~1,000 sq. ft.) than Phase I. Total saleable area is 0.1 mn sq. ft. and the company has sold ~80% of this phase. Both the phases put together translate into a saleable area of 0.57 mn sq. ft.

Commercial Projects

- ❑ **Weikfield (Pune)** includes 4 buildings with a saleable area of 0.5 mn sq. ft. Of the 4 buildings, 2 have already been completed. The company plans to complete the remaining 2 in the current fiscal year.
- ❑ **Matrix (Pune)** consists of 2 buildings with 0.2 mn sq. ft. already sold and completed and another 0.2 mn sq. ft. sold, which is currently under construction.
- ❑ **Phoenix Venture (Pune)** - One building is ~80% complete. They also have land over here but nothing has been sold.
- ❑ **Marisoft Annexe (Pune)** – Not yet started. Commencement will take some more time.

Hospitality projects

- ❑ **Hyatt (Pune)** – The project is complete. Commenced operations in Q2FY11
- ❑ **Holiday Inn (Pune)** – The project is complete. It will commence operation in Q3/ Q4 of FY11.
- ❑ **Coimbatore Hotel** – Construction is ongoing. Yet to tie up with an operator.

Status of hospitality projects

	Vista Do Rio	Galaxy Resorts	Golden Sults	Holiday Inn	Hyatt	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%	27.50%	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	-	-	71	-	84	-
- 1 BHK		-	-	-	40	-
- 2 BHK		-	-	-	27	-
- 3 BHK		-	-	-	17	-
Status	Operational	Operational	Operational	Under Construction	Under Construction	Planning Stage
Operator	Conamore Resorts	Royal Orchids	Royal Orchids	Holiday Inn (IHG)	Hyatt	To be tied up
Owner Entity	Vascon Engineers	Cosmos Premises	Rose Premises	Viorica Properties	Ascent Hotels	Caspia Hotels

Source: Company

Ongoing real estate projects update

Project	Vista Phase I	Willows phase I	Forest County phase I	Willows Phase II	Vista phase II	Tulp phase I	Tulp phase II	Windermere
Type	Residential	Residential	Residential	Residential	Residential	Residential	Residential	Mix
Location	Nashik	Pune	Pune	Pune	Nashik	Coimbatore	Coimbatore	Pune
Total saleable area (sq. ft.)	176,260	197,262	688,370	159,910	128,000	74,000	197,500	396,800
Total area sold (sq. ft) till sep 10	160873	143015	547,486	60,918	66,285	74,000	38,795	55482
% Area Sold	91%	73%	80%	38%	52%	100%	20%	14%
Total no. of apartments	126	60	386	126	112	48	112	Apts-62 Duplex -21

Source: Company

New acquisition: Chennai Township

- This project involves building **8,000 units with a total developable area of ~11.6 mn sq. ft.** This is a JDA project (~76% revenue sharing) with Balakh Realtors Pvt. Ltd (an Israeli fund which owns the land) wherein Vascon owns 76% stake. The project would incur a total investment of ~Rs 20 bn and would be developed in 4 phases over a period of 6 years. Phase I is expected to be launched in December 2011.
- The project is located at Oragadam, a town and industrial area located in the outskirts of Chennai (large auto and auto ancillary micro market), where some other prominent developers such as Tata housing and Hiranandani are also developing mass housing projects.
- The company estimates a selling price of ~Rs 2,600 - 3,000/sq.ft. and cost of construction of ~Rs 1,500/sq.ft

Key contractual orders received during the quarter

Projects	Value (Rs mn)
Park Mansion-BPTP	328
Forest County	300
Park Serence –BPTP	197
Sinhgad School -Pune	138
Caspia Hotel	121
Tulips –Coimbatore	100
Others	148
Total	1,332

Vascon's key contractual projects

Contracting Entity	Location	Contract Value (Rs mn)
Delhi International Airport –car park	Delhi	2,481
TN Assembly Complex (Block-B)	Tamil Nadu	2,109
Ruby Mills, Dadar	Maharashtra	2,074
HDIL	Maharashtra	1,791
Neelkanth Palacia, Mall & Business centre	Maharashtra	1,333
KONDHWA Realty	Maharashtra	999
Savitribai Phule Shikshan Prasarak Mandal	Maharashtra	820
Neelkanth IT Park	Maharashtra	759
North Town, Chennai	Tamil Nadu	748
BPTP -IT park	Haryana	739
Kshitij Parmanandwadi	Maharashtra	564
Villa Viviana	Tamil Nadu	562
Sinhgad Technical Education Society-Addition	Maharashtra	536

Source: Company

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