"Vascon Engineers Limited Q2 & H1 FY-25 Earnings Conference Call"

November 05, 2024

MANAGEMENT: DR. SANTOSH SUNDARARAJAN – GROUP CHIEF EXECUTIVE OFFICER – VASCON ENGINEERS LIMITED.
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Moderator: Ladies and gentlemen, good day, and welcome to the Vascon Engineers Limited Q2 & H1 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistances 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 Mr. Vishal Mehta. Thank you, and over to you, sir.

Vishal Mehta: Thank you, Shlok. Good morning, everyone. I, Vishal Mehta, on behalf of Stellar Investor Relations, welcome you all to Vascon Engineers Limited Q2 & H1 FY25 Earnings Conference Call. We shall be sharing the "Key Operating and Financial Highlights" for the 2nd Quarter and Half Year Ended September 30, 2024.

We have with us today the Senior Management Team of Vascon Engineers Limited, Dr. Santosh Sundararajan – Group CEO; and Mr. Somnath Biswas – Chief Financial Officer.

Before we begin, I would like to state that, this call may contain some of the forward-looking statements, which are completely based upon the Company's beliefs, opinion and expectations as of today. The statements made in today's call are not a guarantee of future performance and also involve unforeseen risks and uncertainties. The Company also undertakes no obligation to update any forward-looking statements to reflect development that occur after the statement is made.

Document relating to the Company's financial performance, including the investor presentation have already been uploaded on the stock exchange and the Company's website. I now invite Dr. Santosh Sundararajan to state his "Opening Remarks" on the Company's performance for the 2nd Quarter and Half Year Ended September 30, 2024. Then we will open the floor for Q&A session. Thank you, and over to you, sir.

Dr. Santosh Sundararajan: Good morning, everyone. Season greeting, and I wish everyone a Prosperous New Year.

We are happy to report a significant growth in our overall revenue, driven primarily by our EPC segment. Despite a slowdown in the overall sector and severe monsoon these few months in several parts of the country, the timely execution of projects and the smooth operation has led to significant improvement in our overall performance. We have achieved remarkable 22% year-on-year revenue growth in H1 FY25. This focused approach not only boosts our efficiency, but also fosters the culture of accountability and excellence within the team, ultimately contributing to our sustained success.

Let me reiterate that the IndAS accounting treatment in real estate can result in timing differences between the recognition of expenses and revenue, which has resulted into decline in profit as compared to previous year's quarter.

Going forward, the outlook for EPC segment continues to stay robust, backed by a healthy and strong order backlog of Rs. 3,267 Crore, which is four times the FY2024 EPC revenue. This demonstrates a solid foundation for growth and for successful execution going forward. Out of the total order book, Rs. 2,781 Crores comprise of external EPC and Rs. 486 Crores comprises of internal projects. Approximately 82% of these orders come from government projects providing reliable cash flow and ensuring swift execution timelines. We anticipate this momentum will continue in the coming quarters, backed by strong and healthy order book.

In terms of winning new orders during H1 FY25, the Company has received new orders from PWD Sindhudurg for the construction of a medical college worth Rs. 332 Crores, and has also received letter of acceptance from Mumbai Metro Rail Corporation Kalbadevi for Rs. 57 Crores.

Our balance sheet has remained robust over the past six months, resulting in significant increase in our bank guarantee limits. This enhanced financial strength provides us with the capacity to support further growth in our EPC division, ensuring continued expansion and success in this sector.

Coming to the real estate segment the market looks promising for us, and we intend to launch two – three new projects in FY25. Our first redevelopment project OM Sainath located in Santacruz; Mumbai is expected to be launched in the month of December. The Powai residential and commercial project is also expected to be launched in early 2025 and other projects are expected to be launched in FY2026, this will contribute towards revenue in coming quarters and we remain positive about our business prospects in the coming year.

In H1 FY25 we achieved new sales booking totaling to 22,152 square feet generating a sale value of Rs. 14 Crore and a total collection of Rs. 25 Crores. We are optimistic about our real estate sectors trajectory, strong pipeline of upcoming projects to strengthen our confidence in sustaining and enhancing positive momentum. We are committed to leveraging these opportunities to drive growth and performance.

Lastly, coming to GMP business: We would like to inform you, with all the divestment of its 100% equity stake in GMP Technical Solutions was announced by the board meeting held on July 17, 2024. The Company has received the sale consideration of Rs. 157 Crores against the transferred of 12,689 equity shares in October 2024 and on 10th October 2024 the money has been received. GMP Technical Solutions that is to be a material subsidy of the Company. As against the Company's share of Rs. 157 Crore post tax and other allied expenses, we are expected to have a net cash flow in the range of Rs. 100 – Rs. 110 Crores. This fund will be majorly utilized as growth and opportunity capital for both real estate and to create some assets for the EPC division, which in turn will be used as collateral for augmenting the EPC working capital limits.

We are happy to inform you that CRISIL has upgraded our credit rating for term loan of Rs. 725 Crores, and the rating has been upgraded to **CRISIL A-** stable for long term facilities and **CRISIL A2+** stable for short term facilities. This was from CRISIL BBB+ and CRISIL A2. The ratings upgrade reflects a sustained operational and financial risk profile driven by healthy execution of the EPC segment. The upgrades also takes comfort from the enhancement and working capital limit, and also factors in the extensive experience of the promotes. Our healthy execution track record in the civil construction business and reputed clientele comprising primary public sector and government entities. This upgrades will play a crucial role in negotiating favorable interest rates in the Company's favor.

Coming to the Financial Performance of the Company in Q2 FY25:

Let me start with the standalone numbers, during Q2 FY25, the Company reported a total income of Rs. 202 Crores as against Rs. 176 Crores in the corresponding quarter last year with the growth of 15% year-on-year. In Q2 FY25 the EBITDA stood at Rs. 17 Crores as against Rs. 25 Crores in the corresponding quarter last year, the EBITDA margin was at 8% and a Net Profit of Rs. 8 Crores in Q2 FY25 as against Rs. 20 Crores in Q2 FY24.

At a consolidated level, Q2 FY25 the Company reported a total income of Rs. 202 Crores as against Rs. 174 Crores for last year. With a growth of 25% year-on-year, the EBITDA stood at Rs. 17 Crores as against Rs. 25 Crores in the corresponding quarter and the EBITDA margin is at 8% and a Net Profit of Rs. 9 Crores in Q2 FY25 as against Rs. 20 Crores in Q2 FY24.

In summary, our various initiatives are successfully driving growth of the Company, with a healthy order book in the EPC segment, an upcoming new project in the real estate segment, and a strong balance sheet mainly focusing on solidifying our financial as well as market position. With all the above-mentioned points, we are very much confident to grow ahead and achieve our goals. Furthermore, by the sale of GMP business, this divestment will allow us to focus on the core business operations, which is now well positioned. We are excited for the future and committed to using our innovative solutions and dedicated team to drive value and excellence for our stakeholders. With this, we can open up the floor for question-and-answer. Thank you.

Moderator: Thank you, sir. We will now begin the question-and-answer session. The first question comes from the line of Himanshu Upadhyay from BugleRock PMS. Please go ahead.

Himanshu Upadhyay: The first question was, you stated that OM Sainath redevelopment will be launching in December. So, have we got the RERA number and commencement certificate for construction in that project?

Somnath Biswas: See, commencement certificate we are expecting within next 7 – 10 days, and then it will take another month to get the RERA. So, that's why we are expecting to get it launched by end of December.

Himanshu Upadhyay: And the other project you stated which you want to launch in FY25 is?

Somnath Biswas: The Powai is very much on the road. We are just expecting the EC very shortly. So, once EC is being received as Powai is more than 2 lakh square feet so anytime in November, we are expecting that EC and then the commencement certificate and RERA will follow subsequently. So, already calendar year 25 the Powai is expected to be launched, so probably in the Q4 of the financial year.

Himanshu Upadhyay: Okay. And any thoughts on, how is the EPC business coming up and what is the new orders you are expecting or how are you expecting FY25 to grow in the, generally second half is more orders, or get more orders any thoughts on that?

Dr. Santosh Sundararajan: Yes, actually we have a target of Rs. 1,500 Crore order booking for the year, which we have been maintaining. And we have only achieved about Rs. 400 Crore so far. So, we do have a backlog on that front partially also was because of the impending elections in the state. And so, we kept our order booking plans on hold for a bit. We would wait for the elections and then from December onwards, try to bag a few more orders in Maharashtra. Also, we were waiting for certain BG limits to come through, new assessment from our lead banker SBI, which is also almost at the final stage will happen anytime and with certain revision of terms our ability to bid will be better. But yes, we still have about Rs. 1,000 – Rs. 1,100 Crore target for the year, which we have taken and we hope to achieve before April. In terms of execution also the quarter three and quarter four are historically always much better than quarter one and quarter two for us. We have crossed Rs. 400 Crores almost in quarter one and quarter two as EPC, our target for the year was Rs. 1,000 Crores, and we are well poised to touch that target for this year. The fingers crossed; we should be achieving that.

Himanshu Upadhyay: And one thing on the current estate projects, in GoodLife, what is the progress because the collection this quarter versus last quarter remains the same, and again the sales are constant so, what progress are we seeing in that project?

Dr. Santosh Sundararajan: No, you are right. The reason that we, in general have constant of sluggish sales is primarily because we have not put up much new inventory for us to focus on sales. We have a few units left in Coimbatore, the first building phase one, and then we have a few units in Talegaon, and few commercial units in the tower of Ascend project. These are the three projects where we have inventory, which we are focusing but the amount of unsold inventory is not so big for us to continuously be scaling up sales quarter-on-quarter yet, only after launching two or three new projects will we be having unsold inventory to focus on sales velocities.

Himanshu Upadhyay: And by when do we expect the completion of GoodLife project and Tulip?

Dr. Santosh Sundararajan: So, GoodLife we have been completing in phases. We completed one phase last year; we will be completing one more phase this year. Tulip's, again two phases, one phase will be completed before March this year, and one phase before March of next year.

Himanshu Upadhyay: Phase one and two what you are saying is Tulip, in the Tulip phase three also there are two parts?

Dr. Santosh Sundararajan: Yes, there are two towers, phase three is the biggest of the three phases in Tulips. So, phase three has two big towers, tower six and tower seven. So, tower six, we will be finishing in this financial year, and tower seven in next financial year.

Moderator: Thank you. The next question comes along the line of Aadesh Gosalia from Spark Capital. Please go ahead.

Aadesh Gosalia: So, I had a couple of questions. The first one is with regards to the gross margins, we have seen a reduction in gross margin, so even quarter-on-quarter, and even on a year-on-year basis. So, any views on that?

Somnath Biswas: I don't think there is a, if you talk about, if you go on the segment analysis, the EPC gross margin remain unaltered. Maybe 0.25 basis plus and minus it keeps on happening, what kind of project contributing more revenue in the particular quarter, but EPC margin if you look at it, range anything between 14.5% to 15% gross margin it is happening throughout the year. Real estate, yes, it is happening as because this is the effect of IndAS 115, depending upon what kind of completion you are recognizing. So, if you look at the standard on profit and loss, yes, obviously they are due to the impact of real estate in certain quarter. If you look at this quarter in top line real estate contribution is almost zero. But whereas there is some bottom-line expenses contribution coming from real estate, so that will impact in the bottom line in overall basis. But if you look at segment wise, EPC remains stable and steady throughout the couple of at least last eight, 10 quarters or more. It is quite consistent at the range of 14.5% to 15%. Real estate it keeps on moving depending upon what kind of revenue you are recognizing in that particular quarter.

Aadesh Gosalia: Okay, and sir any view on the order book since we have elections that have already been going first half of the year and now there are certain state elections that have happened, and one like Maharashtra elections that are coming up. So, any view on the order book and about how you are seeing this overall, picture with regards in the second half, and also how has the month of October went by for us?

Somnath Biswas: Prior to this Mr. Himanshu also raised the same question which Mr. Santosh answered. This year we have targeted for the order book of Rs. 1,500 Crore, so as to maintain that run rate and all these things. Out of that, almost close to Rs. 350 Crore we have already bagged in the H1. Yes, you are right, that impending election or central and state impacted to some extent, but we are well confident that in H2 we will be able to bag another Rs. 1,000 Crore so that bidding process and everything is on and we are also with some margin realignment of working capital limit we are expecting from the lead banker by November, so we will be able to leverage more BG level. So, we are well poised to back almost ~Rs. 1000 Crore plus order. So, our target, we are quite confident to achieve the target.

Aadesh Gosalia: Okay. And how about this Q3 has been right now, if you can share some light, the previous month, how has it gone by and short term like view we have….

Dr. Santosh Sundararajan: No, Q3 is going as per plan, couple of projects Moshi and Police Housing in Pune and now Capgemini, all three have taken off. And so, the billing trajectory on these projects now is climbing. So, month-on-month, value of the bill is increasing on these projects, is same as the case with Suphal Bihar. So, Q3 definitely will be, in terms of top line much better than Q2.

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

Rajendra Kulkarni: First of all, sir, I appreciate your results for your previous commitments and promises like disinvestment of GMP, etc. I just wanted to know Company's view on the so called the third Mumbai which is coming up, that is developed towards Panvel region and other extended Mumbai area. How do you see the real estate market coming up in that area and do you foresee any solid, durable business coming out from that area so you are already in the Mumbai business, though I feel redevelopment projects have their own limitations? To grow in a meaningful way, you need to start new green field projects in Mumbai. So, please throw some light on the extended Mumbai region and some companies thought on it.

Dr. Santosh Sundararajan: So, we have maintained over the last few quarters. That, we do not want to disagree on our short-term strategies to do with real estate, which has been one growth in Pune through strategic joint ventures in developed locations, not on the outskirts where we are still doing 50-acre or 100-acre projects, but closer to where development from the government has already reached. So, whether it is two acres, five acres, we are looking for parcels which are ready to sell in Pune, similarly, in Coimbatore where we have a brand. And in Mumbai, this has been our new entry into Mumbai. As far as real estate is concerned, we haven't done much in Mumbai in our past, and considering our Company size and our size of our balance sheet, our ability to raise finance, we do not want to be aggressively jumping into a bigger game in Mumbai.

There are enough players in Mumbai with bigger pockets who have done much bigger projects.

We are therefore happy at this point of time, taking niche projects in prime locations like Santacruz, where we can showcase our quality of construction, quality of design, which we feel is superior to a lot of the competition that is offering in Mumbai. And once we are in a position to execute these three that we have in hand, two in Santacruz, one in Powai. Then, we will see how we want to take our next steps in Mumbai. So, at this point of time, we do not have any aggressive plans to look for big greenfield projects in extended Mumbai. But having said that, we have our own land in Thane and so that we are working on, and that is also prime location as far as extended Mumbai is concerned. So, by the time that land we had mentioned last call also we are working on acquiring, ring fencing about 20-25 acres road touch in that location. And once we reach that stage, we will deliberate at the board level what we want to exactly do with the 25 acres whether we want to sell some or develop some.

Rajendra Kulkarni: Okay. And one more question in the same real estate division, are you planning to launch any new projects in Pune right now?

Dr. Santosh Sundararajan: In Pune, we have one project in Kharadi, which is yet to be launched. We hope to launch it in the next financial year, and we are in the process of tying up at least a couple more joint venture projects in niche locations, as I said. So, with tie ups happen, then within six, eight months again, next financial year we may be able to launch one or two more. One is confirmed.

Somnath Biswas: Two is confirmed, eventually one is Baner-Pashan Link Road that is coming up with almost 1 million square feet, and another one is the Kharadi which is 0.5 million square feet. So, next Financial Year 25, 26 you will see two launches of 1.5 million square feet in Pune.

Rajendra Kulkarni: The Kharadi project is besides the tower of Ascend project?

Dr. Santosh Sundararajan: Not besides the tower of Ascend.

Rajendra Kulkarni: No, I mean despite other that is separate project.

Dr. Santosh Sundararajan: Yes.

Moderator: Thank you. And the next question comes from the line of Ayush Kataria an Individual Investor. Please go ahead.

Ayush Kataria: So, I wanted to understand, as we have told our GMP business, roughly it was 30% of our business previously. So, how much will it be replaced by real estate business going ahead, as you have said, you will be focusing on real estate business as well?

Dr. Santosh Sundararajan: So, if you see our last year's consolidated revenue was in the range of Rs. 1000 – Rs. 1,050 Crores. And this year we are targeting to cross last year's revenue in spite of not having GMP in-hand. So, GMP had contributed about less than Rs. 300 Crores, almost Rs. 300 Crores last year, ~Rs 270 Crores, I guess, towards that top line. So, this year, that Rs. 270 Crores would disappear from our consolidation, but still we have a plan to not dip our top line, achieve the same amount of top line although if not a little bit more. Primarily, that is driven by additional ~Rs. 200 Crores that will come from the EPC segment this year. So, what we are losing in GMP this year will be, augmented by what EPC has scaled up, not yet real estate, but real estate project the top line will start appearing in our books a couple of years from now. And so, by the time we reach Rs. 1500 Crores, there will be good contribution from real estate as well.

Ayush Kataria: Okay. Also, I wanted to understand as we have EBITDA margin. So, from 14% like last quarter it was 9% now 8% so, as you are saying we will be buckling upon EPC projects and real estate so where we can see those margins going ahead. Because in EPC generally, we have 14% – 15%, in real estate we have 25% at EBITDA level. So, how will be the blended margin?

Dr. Santosh Sundararajan: Again, so what happens unfortunately when quarter-on-quarter, when we compare just because of the real estate recognition not happening in a linear fashion, the console or the standalone EBITDA margins keep going up and down a little bit. So, that's why we provide the segmental accounts, or segmental analysis of our two divisions. EPC has been quite stable with the growth in scale of EPC, we hope to achieve EBITDA in the range of 11% and 12%. Hope to get a PBT closer to, our target is to reach, step-by-step reach close to 10% in terms of PBT, we are currently closer to 8%. We would like to with scale hopefully this year we can touch 8.5%, may be 9%. And next year we can inch towards 10% at PBT levels for EPC, that is an internal target, which we definitely focused on maintaining extreme discipline and monitoring our project and controlling our margins.

On the real estate side, the EBITDA as well as the PBTs could be exactly double, again as a blended what is the contribution of top line from each division that is what would give you your blended result. So, even this year when we are saying we will do Rs. 1,100 – Rs. 1,000 odd would come, we are targeting about Rs. 1,000 Crores coming from EPC only, and only about Rs. 100 Crores coming from real estate. So, again, the blended margins would not go up much from EPC levels of 8%, it might come towards 9%. But next year, as the execution of these new projects that we are launching, the revenue will only start coming in two years, two and a half years' time into our books. But as I said, when we touch Rs. 1,500 Crores, top line in two years from now, hopefully, Rs. 250 – Rs. 300 Crores, comes from real estate, and so the percentage contribution of top line from real estate will continue to increase step-by-step from here, and so the blended margins also would go up. But I can just say that, in general you can take the numbers, segmental wise whatever numbers we are saying is what we are targeting to achieve.

Ayush Kataria: Okay, understood. And also, sir currently we have Rs. 3,200 – Rs. 3,300 Crores of order book and execution timeline would be around two years, because generally contracts are for two years and you are saying Rs. 1,000 Crores will be achieved this year, so Rs. 2,000 remains for the next year. So, I am not able to understand that?

Dr. Santosh Sundararajan: So, we are at Rs. 3,300 Crores currently, let's say and only Rs. 600 Crores more will be achieved this year. Rs. 400 Crores is already gone. So, Rs. 3,300 Crores minus Rs. 600 Crores we will come down to Rs. 2,700 Crores, if we do not book any more orders. Now, next year we want to do, say we want to achieve Rs. 1,200 Crores and not Rs. 1,000 Crores, which means we should start the year with Rs. 3,600 Crores in-hand. So, that is why I keep saying that we definitely have a target of about Rs. 1,000 Crores more of order booking by April, to keep this growth to realize.

Ayush Kataria: So, roughly 25%, 30% growth in order book each year we can expect, right?

Dr. Santosh Sundararajan: Yes.

Ayush Kataria: Okay. And also, sir on our bank guarantee and performance guarantee fund. So, how much is required, like for funds ~Rs. 3,200 Crores order book so bank guarantee and performance guarantee should be given. So, for that guarantees will still be required?

Dr. Santosh Sundararajan: No. So, the order book that we already have in hand, the guarantees are already upfront it. So, we do not require any more funds for providing guarantees for this order book. Where we would need, as I said we have another additional Rs. 1,000

Crores target for the year of order booking. And to achieve a Rs. 1,000 Crores order booking, you need 5% BG, and conservatively speaking another at least 5%, 7% of advance that we would like to draw down to start those projects. So, about 10% so Rs. 100 Crores of BG limit would have to be fronted over the next six months to achieve our order booking targets.

Ayush Kataria: Okay, understood. And one more question, sir as currently we are more, like more businesses coming from government projects roughly 82%, so any plans for reducing that?

Dr. Santosh Sundararajan: At a very strategic level we would like to be at least 60:40 or 65:35 government to private. Now, one good thing is that as a composition of our total order book of 3300, 400 Crore order is our internal order which can be classified as private. So, if you consider that, then the government order composition, the overall kitty is only about 70. Still at a theoretical level, we would like to have this towards 60, at least 60:40 and not be skewed towards one direction. But having said that, at this point of time, over the next six months whatever best orders come, we will take, if it's government orders that is what we are getting we will go for it. We will not be rejecting a good government order just to maintain a ratio that we want to maintain.

Ayush Kataria: Okay. And so, as we mentioned internal and external. So, have you thought of any blended ratio for that as well, like 10%, 20% on internal order book, 80% from external order book?

Dr. Santosh Sundararajan: So, ideally see, as I said we would want, let's say we want a 60:40 government to private. Now, in the 40 private, maximum that comes from my internal order I am happy, it is better to be working for Vascon Real estate as our client than any other private builder because obviously Vascon Real Estate is the best private client the EPC division can have. Our risks of money coming in, BG risks and all the other risks are much better controlled if we are working for our own self. So, ideal ratio would be 40% coming from our own real estate and 60% coming from EPC outside. But that would take three, four more years to achieve but we are working towards.

Ayush Kataria: Okay. And one last question sir, sorry for asking so many questions. So, we have already entered Pune, Mumbai and Coimbatore in real estate business. So, any plans for any additional city?

Dr. Santosh Sundararajan: No, in the short to medium term, no.

Moderator: Thank you. The next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Sir my first question regarding we have received Rs. 157 Crores for diverse plans. So, what are the plan for the fund allocations for deploying those funds. My second question is regarding margin improvement from 8% to 10% on the EPC business, what kind of initiatives we are taking to achieve those kind of margins?

Dr. Santosh Sundararajan: So, from the GMP sale, we have received the net cash flow in the range of Rs. 110 Crores post tax and post certain expenses, cost of sales, all of that being funded. Vascon would receive about 110 Crores. In a very general broad level, we would be using about **Rs 60 – 70 Crores** in the real estate projects those QIP hasn't gone through. So, we have some temporary borrowing, which we will try and pay off towards the real estate, and balance 20% – 25% will be used towards EPC. We will try and create some collateral for EPC, which we can then pledge with the banks, because we are expecting augmentation in BG limits with our rating improvement. And, the continuous process with the bank. But once the BG limit augmentation happens, we would need collateral to avail the limits. So, that is the focus as far as the fund usage is concerned.

And sorry, what was the second question? 8% to 10% it's a challenge, the answer is, in two fronts. One is that, if we can hopefully keep a healthy mix of order booking, that we have queue towards design and build projects, because that is where we are able to add efficiencies on the drawing board by doing efficient design, by being optimal in our consumption and increase our margins one or two basis points, that is one strategy. Higher the design build projects we have in hand, higher our chance that we can pull this margin up from 8 to 10. And the second aspect is that scale is improving, we were doing Rs. 700 Crores last year, we are doing Rs. 1,000 Crores this year, we are doing Rs. 1,200 Crores next year. So, our overhead will get spread out on higher denominator, so that will also help us improve our margin from 8 - 10%.

Somnath Biswas: There is another aspect also that is why we are confident on our business, if you look at pre COVID or during the COVID kind of, whatever the order book was having some kind of little bit competitive margin as compared to what you are getting today. So, most of those orders has been almost executed**.** So, whatever we are executing is quite a good range of healthy margin, so we are confident to stay above the overheads, our finance cost is not going to improve, it will remain constant, so the absorption will be much greater, so that's the way we will move from 8% to 10%, the way we will keep on increasing the volume.

Balasubramanian: Got it sir. Sir you have mentioned about fundraising through QIP. So, what is the plan, how much we are planning to rise and when it is expected to complete?

Somnath Biswas: As of now, we put QIP in the back seat as because, if you look at that market and all these things, we are not very hopeful to go with the QIP as because dilution of the existing stakeholder will be quite substantial with this price. So, we are not interested to go for that. We are looking some other option. But in worst case scenario, the plan B, what we thought of earlier days we will raise capital through debt and all these things.

Dr. Santosh Sundararajan: True, see the original plan was to fund real estate projects by project level equity. When the prices of, share price went up to Rs. 75 – 80 we thought it was probably an opportune moment to do a QIP and raise Rs. 100 Crores rather than raise private equity at project level, but now with the market again having fallen and we don't know when we will get back to those levels, if we have to launch couple of projects, we will go ahead with the private equity path or short-term debt path and carry on our growth story rather than diluting equity compulsory.

Moderator: Thank you. The next question is from the line of Praveen J from Sincere Syndication. Please go ahead.

Praveen J: My question is also for the line of QIP, which was asked by the previous participants, so my doubt was even when our share price is in Rs. 73 range, how viable would this QIP be as our credit rating is now being increased, why are we not going for debt and I am not saying that getting books also high, in a high range. So, why are we not expecting debt as an option sir?

Dr. Santosh Sundararajan: Which option?

Praveen J: Debt, pricing debt as an option instead of going for QIP?

Dr. Santosh Sundararajan: No, so we have been very clear on our strategy for EPC. We do have a certain amount of debt to do with working capital, about Rs. 60 odd Crores which gets utilized and we have then advances available to us from clients through BGs. And sometimes we do take short term, six months, eight months, short term debt if that is a more viable option than using the advances available from clients, because many of these advances are anyway interest bearing plus you have to put up your BG margins. So, it's a call project to project, how we fund but yes, mostly these are short term debt funded only.

On the real estate there are two aspects to funding. One is the construction finance, which we are very happy to avail at low interest rates, which is when the project has been launched the approvals are in place again, it's a short-term funding which may be extinguished by the project receivables within a period of a year or so. However, we are vary towards using NBFC, high cost debt at an early stage of real estate, where we are at a stage of joint venture where we need to upfront the money to maybe pay the deposit to the partner or to get approvals in place. Because there is always, a huge delta in terms of timelines to approval in our country, and the interest meter keeps running and these are high-cost debts. So, that is the only debt we are very about sometimes in real estate, we would rather part with higher IRR towards an equity partner at a project level who will probably take some stock from the project at a discounted rate upfront, rather than go for debt at a very early stage.

Somnath Biswas: But keeping in view of what we are talking we are also exploring some kind of opportunity where the site is a, if it is a structured debt where the content is very low kind of rate of interest, and it is back ended to some extent. So, then probably, since all these three projects, what we are looking for Bombay is QIP aim for this key project, since it is at the per day advance level of launching, so we are also not ruling out that debt option. But if we get that kind of structured debt, that content is very low margin, low rate of interest and it is little bit back ended, we are open to do so and we are exporting that also, right.

Praveen J: Alright. One more question is similar line, we initially planned for QIP of around Rs. 100 – Rs. 150 Crores and with the situation as we explained we are not going ahead. So, whether our growth is getting hampered on this aspect, the purpose in which we have initially planned for the QIP, whether we are going for the same targets or we are revising the targets based on the QIP?

Somnath Biswas: No, there is no change of target nothing is there, so growth will not be hampered. So, we had the plan B on the place, because if you look at our current gross debt also increase as because of the delay we took some kind of debt from Arka Capital and infuse that in the project so that approval process should not get delayed or stopped, so that, our timeline and schedule whatever the launch it is very much on the card, so there is no delay and subsequent to that, the part of the GMP sale proceed which we received to some extent, it will be utilized to mitigate that requirement also, so our growth process will not be delayed.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, when I look at our FY24 annual report out of us, we have around Rs. 266 Crores of receivables out of that sir, Rs. 84 Crores are pending for more than two years. So, how much of that would be retention money and the Rs. 103 Crore receivables from the GMP would have gone, right now.

Somnath Biswas: Close to Rs. 65 – 70 Crores is retention.

Madhur Rathi: Okay. And another line item of Rs. 97.7 Crores that is retention money that is pertaining to EPC. So, I am trying to understand why this you are saying Rs. 65 – 70 Crores is the retention. But also, there is a line item where it says Rs. 97.67 Crores is the retention money pertaining to EPC.

Somnath Biswas: I do believe, that if you are talking about aging wise, currently which has been in every invoice 5% retention has been involved. So, almost Rs. 20 – Rs. 25 Crores is less than one-year retention.

Madhur Rathi: Sir, so as on date how much would be the retention money, and what would be the long term and short-term bifurcation over that? Sir how much of retention money have we given as of date and what would be the bifurcation of the short term and the current, current as well as the non-current portion of it?

Dr. Santosh Sundararajan: If I look at the number, total receivable is Rs. 91 Crores but out of that Rs. 76 Crores is the retention. Note No: 10, I can look at.

Madhur Rathi: Okay. And sir second question, we have drawn Rs. 62 Crore loans and receivables to related parties where kmp have key influence. So, what is this regarding, and what kind of internet do we earn on this?

Somnath Biswas: So, that includes some project advance, that Mumbai Estate. So, that includes Mumbai Estate. Mumbai Estate is having land of 145 acres in thane in which company own 45 percent.

Madhur Rathi: Okay. Sir, last few quarters you have mentioned that you would do a QIP. So, are there any plans to go forward with that QIP going forward, or are we planning to keep it on hold currently?

Dr. Santosh Sundararajan: Already, we answered, we have kept it on hold, in the current market condition all those things there is no point of making a dilution of the existing stakeholder status, so as of now it is on hold.

Madhur Rathi: Sir my apologies joining late. Sir a final question, we have guided for a Rs. 1,000 Crore EPC revenue in FY25 as well as Rs. 125 Crore revenue from Real Estate**,** but sir in our credit report it has been mentioned that Rs. 850 Crore under revenue own on the EPC segment for FY25, so why is the Rs. 150 Crore difference between what we have said and what we have said to the credit rating agencies?

Somnath Biswas: So, we are always little bit conservative in terms of our CMA and rating agencies are concerned. So, there is no point of underperforming in any chance with the rating agency rather than over performing what you are doing. So, that is the policy even in all the CMA for the banks and all these things, we are little bit conservative while projecting that number with the banks and rating agency.

Madhur Rathi: Okay. Sir so can we expect to be closer to the Rs. 1,000 Crore that we have guided for on the investor presentation concall?

Somnath Biswas: Yes, we have bid well for that, if you look at H1 we already did Rs. 400 Crores, so we are quite confident to at least close to Rs. 600 Crores in H2.

Madhur Rathi: Okay. Sir, I wanted to understand, we have guided around 15% to 18% kind of PBT margin on the real estate segment and we also do our EPCs. So, is this including the EPC margins, or is this pure play the marketing and the developer kind of margins and the EPC margins are different, so that's why it looks lower than other players, like Sunteck who have similar EPC as well as the marketing in-house.

Dr. Santosh Sundararajan: That’s very difficult to, as I said so we are in two divisions we are in EPC and in real estate, and reiterate that in EPC, we are currently at around 8% PBT level. We want to move towards 10 from year on. And that's a conscious attempt or strategy that we have with scale, as well as with certain other ways of improving efficiencies. On the real estate our gross, our PBT would come about double of our EPC PBT would be in the range of 16% – 17%. How much is our blended standalone margin quarter-on-quarter on year-on-year would entirely depend on the proportion of real estate and proportion of EPC. At this point of time, it's 90% contribution is coming from EPC, and so our margins would remain skewed towards EPC margin. Only when our proportion of revenue contribution coming from real estate increases, we will have blended margins go up. It's very difficult to compare with peers who are in both these businesses, because it all depends whether it's a joint venture, whether it is land owned by them in the books traditionally, and what proportion of real estate, what proportion of EPC. So, the best way would be to separate the two segments and compare EPC to EPC peers. And real estate at this point of time is contributing very little, but as it grows, then we will start comparing it to real estate peers.

Madhur Rathi: Sir my question was more regarding, does the EPC margin that we have guided, is it excluding so on the EPC segment we bifurcate what is the captive EPC project and what is the outside EPC project. So, including the captive EPC project as well as the marketing that you did for the real estate segment, our margins would be combined of these two. So, at times 15% – 16% so it would be around 25% PBT level is that understanding, correct?

Dr. Santosh Sundararajan: No in our segmental reporting split into two, then we do not then consider our in-house EPC revenue.

Somnath Biswas: In EPC, that is the cost, but in financial that has been eliminated.

Dr. Santosh Sundararajan: So, your marketing cost and all go as cost of real estate, nothing to do with EPC.

Madhur Rathi: No, I am not talking about cost, but I understand that the 15% – 1 8% margin in the margin for that and we don't take any kind of margin from the EPC that we do for the in-house, is that understanding, correct?

Dr. Santosh Sundararajan: Yes.

Somnath Biswas: Correct.

Madhur Rathi: Okay. So, just a final few questions. Sir what is the contingent of performance guarantee that we have given to banks on behalf of our group that is around Rs. 228 Crores, versus Rs. 160 Crores on a Y-o-Y basis?

Dr. Santosh Sundararajan: I couldn’t get it; can you just repeat the question?

Madhur Rathi: Sir, we have given around Rs. 228 Crore of performance guarantee for our group companies to bank so what is in regarding under contingent liabilities?

Dr. Santosh Sundararajan: As of now there is only one guarantee which was towards GMP that will also be now released. It's released with the sale of GMP, so we do not have any guarantees henceforth that will be towards any of our group companies.

Madhur Rathi: Okay. So, when I look at our balance sheet around, out of how much of these Rs. 228 Crores would go away?

Dr. Santosh Sundararajan: We have a bank guarantee of more than Rs. 200 Crores in the market to third party clients. As far as GMP was concerned, how much of the value of our guarantee, 100 Crore was the value of our guarantee towards GMP, which is now gone, but even then, we will be having more than Rs. 200 Crores of bank guarantee in the market to do with our EPC clients, the exact number we have to verify and get back to you.

Madhur Rathi: Okay, sir got it. Sir just a final question from myself. Sir, why is our cost of borrowing so high at around, 12.5% – 15% rate of interest, and when can we expect just to reduce going forward?

Dr. Santosh Sundararajan: See there are two aspects to our cost of borrowing one is our CC limit, which is it is around 9% from SBI or the consortium of bankers. But the other borrowing for us, we only borrow most of our borrowing is partially collateral free, short-term borrowing to fund the launch of a real estate project or to fund interim funding of an EPC project for a few months. So, consciously, these borrowings, even if they come at, 12% they are generally collateral free, and so that, sort of benefits us, and that's why the overall scale is going towards 11% – 12%.

Madhur Rathi: So, can we expect some kind of improvement in our cost of borrowing moving forward, or with the GMP coming in, as well as the Thane land monetization post elections we can expect?

Dr. Santosh Sundararajan: Cost of borrowing, although we would like to attempt to bring it down. But at this point of time, as I said, for the kind of loans that we look for which are short term loans in both real estate and EPC, collateral free, they would come in that range of 12% only. So, at this point of time, we do not have any real plans to drastically bring down the cost of borrowing going forward.

Moderator: Thank you. As there are no further questions from the participants, I will now hand the conference over to Dr. Santosh Sundararajan for closing comments. Over to you, sir.

Dr. Santosh Sundararajan: I would thank all of you for actively participating in our call and tracking us. And wish you all a Happy New Year, and I will see you again next quarter. Thank you.

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