VASCON

June 10, 2019

To,
National Stock Exchange of India Limited,
Listing Department,
Exchange Plaza,
Bandra (E), Mumbai – 400 051

Ref Symbol: **VASCONEQ**

To,
BSE Limited,
The Department of Corporate Services
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai 400 001

Ref: **Scrip Code: 533156**

Sub: Earning Conference Call Transcript post Board Meeting dated May 30, 2019

Dear Sir/ Madam,

Please find enclosed herewith Earning Conference Call Transcript post Board Meeting of the Company held on May 30, 2019.

This is for your information and records.

Thanking you,
For **Vascon Engineers Limited**

Santhanam Doraiswamy
Chief Financial Officer

VASCON ENGINEERS LIMITED

Enclosures: As above

VASCON ENGINEERS LTD.
Registered & Corporate Office: Vascon Weikfield Chambers, Behind Hotel Novotel, Opposite Hyatt Hotel, Pune Nagar Road, Pune Maharashtra, India 411014

"Vascon Engineers Limited Q4 FY19 Earnings Conference Call"

May 30, 2019

MANAGEMENT: DR. SANTOSH SUNDARARAJAN - GROUP CEO
MR. RAJESH MHATRE - CEO (REAL ESTATE DIVISION)
MR. D. SANTHANAM – CFO
MR. M. KRISHNAMURTHI - CHIEF CORPORATE AFFAIRS

Moderator: Ladies and gentlemen, good day and welcome to the Vascon Engineers Limited Q4 FY19 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 assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Dr. Santosh Sundararajan – Group CEO of Vascon Engineers Limited. Thank you and over to you sir.

Dr. Santosh Sundararajan: Thank you. Good morning everyone. I welcome you all to the earning conference call of Vascon Engineers for the quarter and year ending March 31st 2019. Joining me on this call is Mr. Rajesh Mhatre – our CEO of the real estate division; Mr. D. Santhanam – CFO; Mr. M. Krishnamurthi – Chief Corporate Affairs and Stellar Investor Relations, our advisors for Investor Relations.

I am sure you must have gone through the Q4 and FY19 Financial results and results presentation uploaded on the stock exchanges and on the company's website. To start with I would initially brief you on the company's performance during the year followed by the recent developments on the industry front. But before I do that, I would like to share that on the standalone basis the company has recorded a net profit of Rs. 15 crores in FY19 and registered a growth of 34% year-on-year on the back of strong order book and execution capabilities and is confident to sustain this performance going forward.

Moving on to company's performance in our EPC division, the current total order book of the company is Rs. 1,148 crores of which the external order book is Rs. 1,011 crores and the internal order book from our own real estate launches is about Rs. 137 crores. Since Q1 FY19 we have received external orders worth Rs. 586 crores including order of Rs. 172 crores received recently from Tycoon Avanti projects and an order worth Rs. 104 crores received from the Pune Muncipal Corporation for construction of affordable housing projects under Pradhan Mantri Awas Yojana in May 2019. We have received external orders from reputed developers and from various government institutions and expect order inflow momentum to pick up going forward with a formation of the stable government. Over the last few years, government give a decisive impetus to all round infrastructure development, major policy overhauls such as demonetization, RERA, and GST amended old act by the insolvency and bankruptcy code and the Benami Transaction Act and launched schemes like housing for all by 2022, 100 smart cities, Amrut, HIRDAY, upgradation and opening of new airports, improving the infrastructure of educational institutes and hospitals and modernization of the railways.

We expect infrastructure sector to continue to receive intensive push from the government and create huge opportunities going forward for us. With a strong track record of execution of EPC projects across the verticals with maintaining high quality standards and timely execution we are all set to capitalize on the growth opportunities ahead.

In the real estate division, the company has launched few projects during the year and we are delighted to share that we have achieved the desired results. The company successfully launched the fully sold Tower A of Forest Edge residential project in January 2019 and Xotech Phase 2 residential project in October 2018. Also, we have launched Forest County an ultramodern residential project in December 2018 and Vascon GoodLife, our company's first ever value housing project in May 2018. And we have made important progress in sales of all these projects.

In FY2019, the company did new sale bookings of 4.2 lakhs square feet amounting to a total sales value of 272 crores, as against sales bookings of 2 lakh square feet for a total value of 197 crores in the previous financial year. We are happy to share that in Windermere, our prestigious luxury project, we have sold 51,900 square feet in FY2019 for a sale value of Rs. 82 crores and we have also received the completion certificate for both the towers.

Let me take you through our financial performance. In the standalone giving FY19, the company reported a total income of 392 crores as against 359 crores in FY18. EBITDA for FY19 stood at Rs. 45 crores with a margin of 11%. Profit after tax was Rs. 15 crores. On consolidated basis during FY19, the company reported a total income of 561 crores as against 578 crores in FY18. EBITDA for FY19 was 44 crores, with an EBITDA margin of 8%. Profit after tax was 5.3 crores in FY19. Total debt as on 31st March 2019 is 252 crores as against 276 crores in FY18.

With this we now open the floor for question and answers. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Dinesh Shah from Shah Investments. Please go ahead.

Dinesh Shah: Just wanted to ask on the real estate side, so what are the sales target in FY20 and can you throw some light on the Pune market as of now?

Rajesh Mhatre: See last year, in fact we have kept a sales target of close to Rs. 300 crores of which we execute Rs. 270 crores. In the next year in fact we have a very strong pipeline of new projects which are lined up, considering that we have a very conservative target of close to Rs. 400 crores for the next financial year. Overall, the real estate market from the end user perspective we have seen extremely strong; we have seen strong demands from the end users from all the projects that we have launched. Considering the current set up of the market we will be focusing on projects where you know typically the sales would vary between Rs. 4,000 a square foot and Rs. 10,000 a square foot. The focus is exactly in this particular segment where we have seen extremely strong demand.

Dinesh Shah: Thank you sir. Next question is what is the status on Vascon GoodLife, and are you planning to launch such kind of affordable housing project in near future?

Rajesh Mhatre: As we said, the company continues to believe in the affordable housing story. We would be launching another project which would be in Madurai, which will be again on the lines of Vascon GoodLife. The only shift that we have done from our strategy is the studio or the 1RK, you know as a product, in fact we would not be focusing on that. Considering the lack of financial infrastructure available in the country for funding, people in that particular bracket which again becomes a roadblock because after taking the booking if we are not in a position to achieve financial closure for those units then that becomes a problem. Except for that, our focus remains the same. In fact we will be doing the next launch of the next phase of Vascon GoodLife, somewhere in the second quarter of this particular financial year and we are hopeful of getting equally strong results in the same.

Moderator: Thank you sir. We have next question from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.

Rohit Natarajan: Sir, the last time we had a conversation, you said, you are in talks with SBI and other couple of banks to increase this bank guarantee limits, what is the progress over there?

Rajesh Mhatre: See, we have received in-principle sanction from couple of Indian banks. We are in the process of availing sanctions, as in fact we should have received sanctions, but considering that this is the financial quarter where the banks announce the results, then the audit proceedings also takes considerable amount of time. Before the close of this quarter we should be announcing tie up of at least Rs. 100 crores in terms of new BGs.

Rohit Natarajan: So, that is a big number because last time you were hinting Rs. 40 crores to Rs. 50 crores and now you are talking about Rs. 100 crores BG limits is what you are thinking. So, this means you are incremental order inflow should be much higher. So, earlier you were guiding at Rs. 40-50 crores of BG limits, you were thinking about Rs. 1,000 crores of order inflow for this fiscal FY20 if I am not mistaken.

Dr. Santosh Sundararajan: See, we very now, we have already bagged almost Rs. 400 crores out of that Rs. 1,000 crores as we standing for the airport order, Rs. 83 crores and then we got Tycoon Rs. 170 and then we got the PMAY Pune Municpal Corporation Rs. 104 crores. So, we are well on track to achieve Rs. 1,000 crores, hopefully we will exceed that.

Rohit Natarajan: Okay. If I could touch upon this non-core bucket monetization, what exactly is the progress over there?

Rajesh Mhatre: See, non-core focus continues to be. Last year in fact we closed roughly Rs. 55 crores worth of non-core monetization and in this financial year the focus continues to remain strong but we will declare, there is lot of ground work that has already happened, but we would declare as soon as we have something concrete in the pipeline.

Rohit Natarajan: But what is the quantum left now, Rs.150 odd crores, is that the amount?

Rajesh Mhatre: See, basically it is an evolving kind of target that we have kept because as a company what we have decided is, if some of our projects which is technically any real estate project is kind of an ongoing project but in case if we want to monetize by selling it on an as is where is basis or may be monetizing a particular land parcel then in fact we actually then dynamically put it in the noncore bucket and therefore the noncore bucket keeps on increasing. So, as and when we announce in fact there should be some significant development in this noncore thing. Company continues to focus on this as part of its monetizing and deleveraging strategy.

Rohit Natarajan: See, the bigger picture where I am coming from is, we look at EPC it is actually operating at may be 40% capacity utilization. It should be ramped up in a big way. We have been talking about it and of course there is one or two steps we are moving ahead but when can we see the big numbers coming in from the EPC segment?

Dr. Santosh Sundararajan: So, with this BG limits getting solved we are aggressive in order booking but having said that see the target reached at ourselves for growth in this year compared to previous year is in the range of about 30%, hopefully we will cross the 400 crores mark on EPC alone, third party EPC alone this year. That is a target we are working towards, and then with order booking happening this year, next year's numbers would look, the growth we can expect in next year would be the percentage of growth could be higher than what we are hoping for this year. So, this year the focus would be now to convert this BG limits and you know to catch on to the positive wave that the new government and new orders, we are expecting that most government agencies across the country will be now putting up their orders with the uncertainties behind. We are hopeful now to be bidding as much as we can and increase our order book. So, you are right, we are working still under capacity. We can do much more, we can do double of what we are doing. Our target is within the next 2-3 years to reach the 3 years max to reach the double mark.

Rohit Natarajan: So, again, there is another question aligned to this. That is the EPC, I see that the site level margins you may guess close to 25%. When you do the focus on, when this number particularly jumps, and the interest cost are also a bit higher, once this noncore monetization, if it helps you is there a savings that you can see on the finance cost or is it because the finance charges is subdued market, the ratings are poor for infrastructure companies across. Where exactly is the steady state profitability that you see in EPC business?

Dr. Santosh Sundararajan: See, the finance cost you are right, it is a mixture of both. There is a negative outlook towards the infrastructure sector itself by most banks. But having said that, we have now steadily improved our status within where we can't deviate from the fact that we are within the same industry, but we have no issues with any kind of delays with bank payments for a long period now and our ratings have remained stable, they should improve this year. We don't have any reason why within the sector we should be looked at negative balance sheets. So, having said that our finance cost primarily is related to a single debt on Windermere, it has not much to do with EPC, our CC limits with SBI went into the tune of Rs. 70 crores and within if you focus on EPC, I don't think the finance cost is really something that is pulling down our PBT. You are right, if we ramp up our topline by 30% as we are hoping to and we achieve then the cross profit at the project are decent. It is the overhead that would then bring down the PBT. So, if the topline increases from 300 to 400, the proportion of overheads would reduce and our PBT would look much healthier. The EBITDA or the gross profits even as it stands are quite good.

Rohit Natarajan: Yes, So, if I understand it correctly, we had a revenue of standalone level 400 odd crores, close to that and if this thing, let us assume it clicks out the EPC focus, by FY21 can we look at maybe a number of 600 odd, the topline for your standalone numbers?

Dr. Santosh Sundararajan: So, we are looking at 600, again I shouldn't be, don't quote me as a projection for the future, but we are looking at something in that range even for this financial year because the real estate division standalone contributes of both third party EPC as well as our own real estate work. So, standalone which is 400 this year should hopefully be closer to 600 in this current FY itself because the EPC will also grow by 30%, third party EPC and the real estate is also growing by more than 30% compared to last year.

Rohit Natarajan: Okay. I was actually, I was assuming because in EPC you did close to 300, that number will actually double and if then that is the case, then the site level margins if you maintain 25%, you can actually do a massive turnaround within this numbers that you are reporting.

Dr. Santosh Sundararajan: You are right. But doubling of third party EPC from 300 to 600 is not something I would comment on.

Rohit Natarajan: Because you are anyway saying that the bank guarantees are Rs. 100 crores, it will move to that levels.

Dr. Santosh Sundararajan: See, what happens is to book orders, it will take us the next few months to book the orders and this orders will translate into topline, see all these projects are about 2-3 years, 30 months, 36 months, 28 months.

Rohit Natarajan: I am talking about FY21.

Dr. Santosh Sundararajan: Yes, by FY21 it is very much possible.

Moderator: Thank you. We have the next question from the line of Viral Shah from Emkay Global. Please go ahead.

Viral Shah: Sir, basically in terms of Windermere, since most of our loans are pending towards Windermere only and I could see that we have done phenomenal sales for FY19, so what is the expectation of this loan coming down significantly over a period of time?

Management: See, one of our core strategies basically is to reduce the loan on Windermere and that is what the focus is on faster sales. In the previous financial year we were in a position to achieve that. We received the OC for the second Tower only in the last quarter of the previous financial year. So, the focus is on equally aggressive sales, so that we reduce this debt burden as soon as possible. So, that is one of the core parts. We have set ourselves for a target of another Rs. 100 crores. If we achieve that, then we definitely can reduce the outstanding at least by 50%.

Viral Shah: Okay. So, out of this Rs. 82 crores how much would have gone for debt repayment, if any of the sales which we achieved?

Management: See, in the previous financial year, the essential focus on completion of the existing Towers. So, as such in repayment, in fact, last year in fact we didn't have any of the money spent towards repayment as such, the focus was on completion of the project per se. As we see for the balance life of the project the outstanding the cost is in the range of Rs. 25 odd crores for completion, considering that around Rs. 70 odd crores of collection is still balanced and with an outstanding inventory close to Rs. 260-270 odd crores. We look financially at least, you know it is a healthy situation, yes, it has to be supported by equally strong sales. If we are in a position to achieve sales which were as strong as the previous year, we are looking for some very good numbers by the close of this particular financial year.

Viral Shah: And what will be the debt amount outstanding in the books for this project?

Management: Sure, on this project, the debt amount outstanding is Rs. 109 crores for this particular specific project.

Viral Shah: So, you have additional CAPEX of 25 crores and 109 crores of debt outstanding. The current receivables are 75 crores from the current sales and additional inventory of around 250 crores?

Management: That is right, but half of that is ours.

Management: About 160 would be our share and 109 is debt and 20-25 is cost to complete.

Viral Shah: Fair enough sir. Secondly I see that we had done many launches during the quarter, and some amount of sales has also been taken place. So, how is the market there in Pune and regions where we have listed and what is the strategy to fund this projects as well?

Management: See, coming to your first question that how are the markets? So, as I have answered previously we have seen a very strong end user focused demand coming from projects wherever you know the price range is between Rs. 4000 and Rs. 10,000 a square foot. So, the company would continue to focus on the markets where this is the range. We would not be focusing on extremely large projects, in fact we are focused on projects essentially where we see we would be launching projects where you know in two launches the projects should be through roughly. So, we are looking at a minimum size of 5 acres and maximum size roughly of 10 acres. We are not looking at very large projects which requires incremental funding costs where the gestation periods are long and considering the present market scenario, we don't feel that is an appropriate strategy for our company. Thirdly for funding of the projects, we essentially are joint venture focused company so that we don't, as a strategy we don't want to invest in land by borrowing money because borrowing nowadays is extremely expensive. So, for any new project if we launch, the initial cost range, the range is between you know maybe 5 crores to maximum of 20 crores including approvals and the premiums that are required to be paid. And the strategy would be in fact to generate this cash flows initially from within the group and then look for construction finance from PSU banks which is extremely cheaper and then drive the company, so the essentially the focus on debt will be minimal.

Moderator: Thank you. We have next question from the line of Nikhil Saboo from SKP Securities. Please go ahead.

Nikhil Saboo: Sir, last quarter we did some sale of noncore assets to the tune of 55 crores, so is that money received because we cannot see any kind of entry in both P&L and on your balance sheet?

Management: See, out of 55 odd crores we should have received 25 odd crores. Balance you know may be by next two months, by July in fact we should be through.

Nikhil Saboo: So, will that money, that 30 crores of additional money coming in will be used for debt repayment?

Management: See, any which ways if you see the consolidated debt from Rs. 270 crores we have reduced to Rs. 250 crores. As far as the utilization is concerned, there is always a compromise between growth and you know towards debt repayment. If obviously we don't envisage any money which is required towards growth, then obviously we can, any which ways we have CC limits, so we can park these extra money in the CC limits and correspondingly reduce our debt obligations. So, as a strategy what is appropriate in fact we can take decisions accordingly but yes, the reduction in overall debt remain the core part of the company strategy going forward.

Moderator: Thank you sir. We have next question from the line of Aditya Nahar from Alpana Enterprises. Please go ahead.

Aditya Nahar: Just one question. This regarding your segmental profit and loss. In your EPC business there is aRs. 22 crores other income sitting in your P&L. Could you just talk about that sir?

Management: Actually, this year we have written off, so it really not EPC income the 10 crores of it is the write back of a zero coupon NCD which was renegotiated. And another 10 crores is actually, since we book from our Forest County project, Ajanta where the cost of material is incurred in that particular company and therefore we book it as other income in terms of PMC fees that gets pulled in.

Moderator: Thank you sir. We have next question from the line of Lovelesh Manocha from SKS Capital. Please go ahead.

Lovelesh Manocha: The other income happens to be at consolidated level considerable part of your overall profits. So, it's something sustainable?

Dr. Santosh Sundararajan: Yes. You are right. Unfortunately there are two aspects to it. This year we did have other income in terms of write back to the tune of 10 crores from the NCD. So, that is a one-off and will not come every year. But then there are other aspects of income which gets classified as other income the way the balance sheet is portrayed, but for us some of these sales are sales of old inventory we are holding which is in a sense part of real estate. So, we do end up always having some amount of other income, if you look back at the previous years also, we have always had other income which essentially it was most of it is real estate income.

Lovelesh Manocha: Okay. So, out of this 37 Cr, probably 25 Cr. is something you expect should continue?

Dr. Santosh Sundararajan: Only 10 Cr. is only one-off as I said. The rest is actually operational. It is just the way we have structured even in EPC as I just explained because we have one big project we are doing internally for Ajanta which is a sister concern an entity where we hold 50%. So, the materials are all procured there and therefore our billing to that company for the profit element on the EPC itself it comes in as other income sometimes. So, actually these are operational, these are really not other income, these are operational incomes.

Lovelesh Manocha: See, I haven't tracked company in details. So, just, you know I saw that FY18 you had some 10 Cr. of share in profits from JV.

Dr. Santosh Sundararajan: Right.

Lovelesh Manocha: And then again you had probably 62 lakhs in the last financial year. So, if you can just give some idea like, this is one-off?

Dr. Santosh Sundararajan: This is not one-off actually. This is from our Ajanta project only. Now, Ajanta being a real estate project, they now started recognizing their balance sheet on Ind-AS 115. Therefore, this year for all the sales that have happened in Ajanta, sales in Ajanta have been continuous, they have been healthy, the construction is also going on. But because of completion methods, they have not recognized any profits in their books. Therefore we are not having any of those profits in this year coming in share of profits, compared to last year. Now that profit will come, when we receive the completion certificate, maybe the year after, those profits will come as share of profits.

Lovelesh Manocha: In FY21?

Dr. Santosh Sundararajan: Yes.

Lovelesh Manocha: And how much is the total size or quantum either on topline or the profit side that we expect from there?

Rajesh Mhatre: See, the balance, currently the projects which we are doing in Ajanta are close to 2.5 lakhs square feet. If we combine forest edge and forest county, when I put together and the average realization is in excess of Rs. 7,500 and the overall cost are close to Rs. 3000. So, we are making a good healthy Rs. 3000-Rs. 3500 per square foot as margin on this particular project. This is for existing projects which are going on in Ajanta Enterprises. In this financial year, we would be receiving approvals, part approvals have been received. It would be in fact good to launch projects which will be close to half a million square feet and with similar margins in this particular project. In addition to that there would be good around 10 acres of land plus you know a TDR which is again of significant value which will be left in this particular project. So, in terms of profits that would be coming from this as an enterprise it would be huge

Dr. Santosh Sundararajan: This will carry on for the next 4-5 years actually and based on percentage completion if any of these buildings get their OCs then we will be able to recognize profit going forward.

Rajesh Mhatre: And sales also have been strong. So, the first Forest Edge that we had launched, it got sold 85% on the day of when in fact they had open sales. The Forest County which was another two towers which we had launched, we have done sales close to 90 odd units of Rs. 132 crores, in not even 6 months. So, the demand over there continues to be strong. It is one of the best projects not only in Kharadi, in fact it is a benchmark project in fact for Pune. So, we believe that we can really cash on this strong, the brand value or the goodwill that the project has built and we should continue to see the same amount of margins as Santosh has mentioned in the coming 3-4 years.

Lovelesh Manocha: Are you seeing any uptake in realization year-on-year for the same project?

Rajesh Mhatre: See, year-on-year it would be difficult to tell. Overall it was a 50 acre land parcel. In fact it got launched somewhere in 2012, from 2012 that project has delivered 900 units, 900 units sold, delivered with the project is going on with 100% occupancy, in fact there is a waiting list even if you want to take an apartment on rent in this particular project, the rate which this project commands is at least minimum of 10%-15% premium on any other project in Kharadi. So, there is a history to this project that it has been very good delivery track record, execution is super and going forward I think it would continue to do this year.

Lovelesh Manocha: Okay. What is our average cost of debt?

Rajesh Mhatre: Average cost of debt is close to 13.78%.

Lovelesh Manocha: Okay. And what is the plan, because that is on the higher side, so what is the plan? Any capital infusion plan or anything, how are planning to bring it down?

Rajesh Mhatre: See, it is on the higher side because see, the interest on CC is decent. The interest cost is on higher side because of the expensive debt that we have in Windermere and the NBFC debt that we have taken. As we have mentioned it is the company's strategy not to reduce debt per se. You know reduction of cost of debt would be changing focus towards government banks which we have and therefore going forward also the strategy would be to focus on construction finance and maybe you grow a bit slow, rather than you know depend on NBFC for that expensive money, so that in fact we would have money for paying premiums, government approvals, but you have to depend on expensive debt.

Lovelesh Manocha: Okay sir. No capital infusion plan or no aggressive plan for sales of noncore assets, in a way because it is a market where realizations are not moving that fast and it is all 14% basically hits the bottom line.

Rajesh Mhatre: Correct. So, therefore there is a very strong focus on these noncore assets in fact we should come up with some positive development on this front in this coming financial year. And we can use that capital for growth rather than any capital infusion or debt that dependent growth trajectory.

Lovelesh Manocha: Because once you have higher better balance sheet will help you get better limits also.

Dr. Santosh Sundararajan: That is right.

Lovelesh Manocha: Okay. From here, FY19 perspective if I see, vis-à-vis FY18, so how it has been, has it been satisfactory for you, or the performance in FY19 consolidated level?

Rajesh Mhatre: See, of all the challenges which we as a group had taken, we can't say we achieved 100% of those, but yes we were, yes 90% we could achieve those. Now clearly in fact we have set ourselves a very high benchmarks on the growth trajectory but yes, we are cautious considering that the financial infrastructure is not that supportive and therefore whatever strategy or growth strategy as a group that we plan, it has to be independent of our dependence on the financial infrastructure which this country provides and therefore there is heavy focus on again the noncore assets sale part.

Lovelesh Manocha: Correct. Because the way you have highlighted the opportunities which are coming along, so for that, once you have stronger balance sheet you will be able to capitalize on it. I see that as a constraint, as a major constraint. The balance sheet, because for EPC, for you to grow?

Dr. Santosh Sundararajan: Yes, you are right, on that front if we look back a year and as Rajesh said, on the EPC as well as the real estate on the standalone Vascon I think we are fairly satisfied with where we are heading. We know the market has been very tough as Rajesh keeps pointing out the financial side towards our industry is very stringent, but in spite of that we know the limitations, we know what we can do, we know non-core asset sale is an important part for our growth story. We have been working on that. We have had success. We are booking more orders in EPC than before, the BG limit is getting solved. We are now looking and so I think Vascon standalone clearly has done its U-turn and is very well on the way up. This coming year we were extremely excited actually about the year ahead for Vascon standalone. What did really good plan year was as you talked about consolidated GMP because GMP we were still sort of underestimated the extent of the trouble that the company had through its past issues. We have been trying to cut that cancer for a while. We have spoken about how we spun of a division, how we sort of almost closed one division and focused on the other. A bit of legacy of that has filled on to this year's balance sheet as well; therefore GMP is still in loss. But we are hopeful now that will be the last year of loss in GMP, so next year GMP numbers will not impact consolidated numbers in a negative way.

Lovelesh Manocha: Okay, great. Just one last thing. If I see QoQ on standalone basis, your margins have got impacted at operating or EBITDA level. So, while you did sell the revenue growth QoQ around 43% EBITDA probably was, it grew by 4% or so. I am not sure if those numbers are correct. You can correct them in case they are not. So, any specific reason for the deterioration in margin QoQ?

Rajesh Mhatre: Are you talking standalone or consolidated?

Lovelesh Manocha: Standalone, consol, I don't have, standalone.

Dr. Santosh Sundararajan: QoQ, so he is talking about March 18?

Lovelesh Manocha: Over December.

Dr. Santosh Sundararajan: December 18, sorry.

Lovelesh Manocha: See, I have Rs. 118 crores as revenue and Rs.82 crores. as your December revenue and Rs. 9.3 for the current quarter EBITDA, vis-à-vis Rs. 8.9 in previous quarter.

Dr. Santosh Sundararajan: Yes. So, I think that is again because see in standalone real estate also comes in. Last quarter we had one land sale. So, whenever see the problem with combining real estate and EPC on standalone is this that real estate never comes in a linear way quarter-on-quarter. So, last quarter I think we had a small land sale component which came in. So, that has certainly increased the EBITDA for last quarter and this quarter we don't have something like that. So, that is the reason for this. Or otherwise EPC is fairly linear. EPC will not have these kinds of huge fluctuations in Q-o-Q EBITDAs.

Lovelesh Manocha: Okay. So, sustainable margins at operating levels will be closer for EPC share to 8% which we had in last quarter, overall?

Dr. Santosh Sundararajan: Definitely. And as the point of earlier with the increase in topline this year that should improve.

Lovelesh Manocha: Okay. So, what element of fixed cost will help employs particularly because equipments they would not be having so many.

Dr. Santosh Sundararajan: We do have depreciation. Not much.

Lovelesh Manocha: How the operating leverage will play in?

Dr. Santosh Sundararajan: So, also we have had, see the staff cost will come down a little bit because did two ESOPs two years ago and costing of the ESOPs are such or rather the impact of ESOPs on the balance sheet is such that it is front loaded. So, the last year and this year we have taken a significant non cash entry I would say on the books which comes as a cost of ESOPs. Going forward that will almost come down close to zero. So, that will also improve our operational margins

Lovelesh Manocha: Okay. Got it. For real estate how much would be a sustainable margin including all cost, including the, because you will have some visibility now from sales perspective also. 8% again would be something that, because it would not workout, if I take 8% interest cost itself is so high. So, what would be sustainable margin for real estate business? You said Rs. 3000 per square foot. Does it include other cost like marketing and, from leadership perspective like what kind of margins would you be targeting?

Rajesh Mhatre: See, basically for joint ventures in fact we are targeting, cost margins which are in excess of 25%. So, 25% to 30% is the gross margin and in fact basically that would target for selecting projects, in fact when we do joint ventures, nothing less than that. For our own projects, say for example all projects in Ajanta and GoodLife has margins which are close to 50%. And Windermere obviously doesn't have any margins and also because of this revenue recognition it will be extremely difficult for me to forecast what will be really the margin that would come in, you know or the impact that would come in if you know if there is Rs. 100 crores of Windermere that is being recognized which will be almost at you know 0% margin and then there is a GoodLife which is being recognized, maybe Rs. 25 odd crores maybe at you know 50% margins, still you know overall margins would look pretty bad.

Lovelesh Manocha: Got it. But ex of Windermere, we expect 50% kind of for own projects and around 25% to 30% for the JV.

Rajesh Mhatre: 50%, Yes correct, for our own projects and where we have JVs it should be close to 25%, Yes.

Moderator: Thank you. So, we have next question from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Actually my question was on similar lines on real estate, what is the ultimate profitability that you expect on an ongoing basis, let us say 2 years down the road what kind of square feet development will happen and what kind of profits will come out of this division?

Rajesh Mhatre: See, basically 2 years probably, still is a short term period as we see. Maybe a 3 year period we are targeting that we should be doing Rs. 1,000 crores worth of sale and you know appropriate whatever margins would be because it would depend on project to project and again you know combination. We have our own projects where we have own lands and then there will be JV kind of projects. So, as we mention on our own projects there will be a margin which will be maybe 50% and for JVs in fact minimum margin would be around 25%. So, that is the thing which we are targeting. From a manpower perspective on the top level in fact they are clearly geared up, we can handle you know that volume, maybe you know some lower level incremental staff that would be required.

Tushar Sarda: That is what I am saying that your costs are already built for a much higher volume. Like this year if I look at your employee cost and other expenses they are substantial and you don't have that kind of volume. You have projects in pipeline because from whatever you have disclosed in the presentation the pipeline doesn't seem to be very big right now.

Rajesh Mhatre: See, what happens is, see even if I do 270 crores worth of sales in terms of value, the value that is recognized in the balance sheet is pittance.

Tushar Sarda: No, I am going by your presentation which is on page 19, where you disclosed. So, 340 crores sale value achieved and if I do a proportionate kind of calculation then maybe another 150-200 crores is what remains to be achieved. So, 500-550 crores of sales and your overheads are like 40 crores-50 crores per annum, so that is what I am wondering.

Dr. Santosh Sundararajan: See, there are lot more projects. So, your 300 odd crores of sales last year is correct, but going forward this year we have a target of more than 400 crores of sale in real estate this year.

Tushar Sarda: So, those projects you have not disclosed in the presentation, is it? There is pipeline which is not part of the presentation.

Dr. Santosh Sundararajan: Yes, so the launches that we are planning to have this year I think is not put in the presentation. Those are forward looking.

Tushar Sarda: That is why my question is, I can't get a clear idea of what you are planning because obviously since you have built up the expenses there should be a substantial pipeline.

Dr. Santosh Sundararajan: There are two reasons why the real estate segment numbers look really negative in that sense is because as you have rightly said we have built up the cost, we have also incurred about Rs. 8-9 crores of marketing expenses on various projects this year which are getting expensed out, but Ind-AS 115 doesn't let you recognize this revenues at all. So, even our Talegaon project, low cost project has not yet given us revenues to the extent that we have actually achieved sales and construction on site. So, all of this there is a lag. So, when Rajesh talks about sales target of Rs. 400 crores this year, the Rs. 400 crores will come to our balance sheet over the next 3 years only depending on various stages of completion for each building. So, that is one thing that in real estate we will see the numbers coming to…

Tushar Sarda: Yes sir. That is what I am saying, if you have Rs. 400 crores sales, it gets recognized over 3 years then you incur Rs. 40 crores overhead and your overhead is Rs. 120 crores on Rs. 400 crores sales which is 30% which is high, how will you achieve profitability?

Dr. Santosh Sundararajan: No, that is not the way it works. We have achieved Rs. 300 crores sales last year. If we achieve Rs. 400 crores sales this year and another Rs. 500crores next year, then we are talking of

Rs.1,200 crores of revenues that has to come to our balance sheet. So, this what we are talking of roughly Rs. 100 crores this year will definitely start picking as the projects reach completion over the next 2-3 years, so we will not be doing only Rs.100- 120 crores is wrong.

Tushar Sarda: It will keep coming, so when you are stabilized, when your sales recognition happens, what will be this overheads the percentage of your sales is what I wanted to get idea and what kind of profitability one expects in absolute terms also from real estate. You know if you can tell us that number, Rs. 1,000 crores of sales a year but in absolute terms what is the kind of profitability one should expect?

Dr. Santosh Sundararajan: See, as Rajesh said. Let us for a moment assume that real estate will do on an average about 25%-28% gross profit as we go ahead and our overhead should come to less than 12%-13%, only then we can, the additional 12%. For that we need to just do Rs. 300 crores. Once we reach the Rs. 300 crores mark also on real estate I think you will start seeing the overhead being covered and profits being generated and if we do Rs. 300-400 sales, then it is a matter of time that Rs. 300-400 crores comes on our balance sheet, just a question of Ind-AS 115.

Tushar Sarda: Okay, my second question was on your EPC, you are very old company and very reputed. Vascon Construction is considered to be virtually a gold standard kind of a thing. So, I am actually surprised to see your order book. You know you don't have any of the leading developers. Are you not trying or if there is some other issues? Because if you look Capacite which has come up in the last 3-4 years, their order book is full of all the leading developers. You don't seem to have that. So, what is the reason, you are not bidding with them or is that some other reason?

Dr. Santosh Sundararajan: Yes, you are right. We have gone through this trajectory. I think as you said we are a reputed company, there is a reason for that.

Tushar Sarda: I mean, I am sure if Vascon goes to any developers they will blindly give you order, I mean that is your reputation.

Dr. Santosh Sundararajan: Yes. But sometimes we end up being a bit more choosy than most of our competitors. That is why we kept a little bit of our reputation intact over the last 30 years also because you will never find client who will have anything bad to say about us. Now there is a reason because we also ensure that we only take projects at the right price, from the right developers. See, we burnt our fingers with the top developers in the past when real estate goes for a toss then the hit is taken in a big way and if you don't get paid for 2-3 months of work, prior expected profit, everything goes for a talk. So, we have gone through this cycle. We have done 800-900 crores of pure third party EPC work in the year 2011-2012. From there we have come down. We have taken conscious call, where we are bidding and what kind of orders we want to take. Real estate builders they yet, they are still cautious about the way we bid to a builder or the kind of guarantee we want to give to a builder.

Tushar Sarda: But now I think in real estate the grain is separated from chaff reasonably well. So, there are really good developers in Bombay, 4-5 at least and in Bangalore especially 5-7 very good developers. That is not reflected in your order book. So, little bit disappointing is all that I would say because I think company is capable of doing much better than this especially…

Dr. Santosh Sundararajan: We agree with you and with RERA coming in, you are right, now it is not that risky to approach builders and we will definitely do that over this year.

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

Mihir Desai: Sir my questions would lie more on the EPC part. So, first, I think on the EPC sir are we focusing on more airport projects?

Dr. Santosh Sundararajan: So, Yes, this year was our first entry into an airport building. We have done lot of work at the Delhi Airport few years ago but that was more to do with a car park, MLCP structure there. We did the entire MLCP building at Delhi if you have seen it. Now this year we have broken into the airport sector with our order in Adampur which is for the entire airport building itself. So, this is the first, I think for us it will help us go more into the segment. Yes, you are right, the government is also planning a lot more airports and hopefully we have already started bidding for a few more. So, hopefully yes, that is one area where we would like to pick up some more work.

Mihir Desai: Sir, one last question sir from my end, because rest everything is covered. Sir there is an anticipation of interest rates going down and will that have a significant impact on the demand of real estate sir?

Dr. Santosh Sundararajan: Yes, it should. I think the demand of real estate; it is high time that the demand of real estate picked up. It has been sluggish for quite a few years for various reasons and I have Rajesh pointed out even if the investor sentiment on real estate has not yet come back and we are still focused on maybe equity or, but the end user, the demand from end user is steadily increasing and with interest rates coming down that will only continue to grow.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Dr. Sundararajan for closing comments. Sir, over to you.

Dr. Santosh Sundararajan: Yes, thank you all for participating and we are very bullish on the path ahead for us. I will see you again next quarter, thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Vascon Engineers Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.