

Press Release

Vascon Engineers Limited

January 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (outlook changed from Stable to Negative)
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-/Stable**' (read as **ACUITE Triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.250.00 crore bank facilities of Vascon Engineers Limited. The outlook is revised from '**Stable**' to '**Negative**'.

Revision of Outlook

ACUITE has revised the outlook from 'Stable' to 'Negative' on account of lower than expected customer advances from ongoing real estate projects and challenges in realizing its non-core assets. The outlook may be revised to 'Stable' in case the company demonstrates significant traction in real estate sales and flow of advances from these projects and substantial progress in disposal of non-core assets. Conversely, the rating may be downgraded in case of further slowdown in real estate sales or sharp increase in debt levels.

Vascon Engineers Limited (VEL), a Pune-based company, is engaged in Engineering, Procurement and Construction (EPC) and real estate construction and development. The company was incorporated in January 1986 and commenced operations with the construction of Cipla's Patalganga factory in November 1986. Up to 1998, the company was a real estate contractor - executing contracts for third parties. VEL's real estate business comprises construction of residential and office complexes along with IT parks, industrial units, shopping malls, multiplexes, educational institutions and hotels.

Analytical Approach

For arriving at the ratings, ACUITE has considered the consolidated financial and business risk profile of VEL along with its subsidiaries, hereinafter referred to as the 'VEL Group'. Consolidation is on account of the common management and business synergies among the group companies.

Subsidiaries of the company include Marvel Housing Private Limited, Vascon Value Homes Private Limited, GMP Technical Solutions Private Limited, GMP Technical Solutions Middle East (Step Subsidiary), Almet Corporation Limited, Marathawada Realtors Private Limited. Joint Ventures of VEL include Phoenix Ventures, Cosmos Premises Private Limited and Ajanta.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

VEL is engaged in providing EPC and real estate construction and development services. Being in the construction business for over 3 decades, the company has gained strong technical and design expertise. Mr. R Vasudev an is the managing director of the company. He is a qualified engineer - BE (Civil) - from the University of Pune and has worked with organizations such as Maharashtra Industrial Development Corporation, Hindustan Construction Company Ltd, Atul Constructions Company Ltd and Beck Engineer Company Private Ltd. The company has a strong and capable second line of management with people who has been with the company since its inception.

Besides revenue in real estate segment, VEL also stands to benefit from a strong EPC, unexecuted order book of Rs. 787.28 crore as on September, 2018 to be executed over the next two years.

Weaknesses

- **Increased business risk pressure due to subdued traction in key real estate sales and large receivables in EPC**

Currently VEL has four ongoing major projects - Vascon Goodlife, Windermere Tower I & II, Platinum Square II and Forest Edge A & B and Upcoming projects - Forest County Tower N & W (Kharadi) and Windermere Bungalow. Though the co. has demonstrated higher traction in lower ticket projects such as Platinum square, Forest Edge tower A and Xotech phase II, however customer advances from the key projects like Windermere Tower I & II, has remained sluggish at 36 per cent and 54 per cent respectively. Total customer advances received to total bookings value, for the ongoing projects are around 39 per cent as on September 2018.

Outlook for real estate demand in mature markets including Pune remains subdued on account of inventory overhang because of sluggish demand from end users. The large NBFC's who have been the major lenders to real estate developers, have their own liquidity challenges on account of Asset Liability Management, which has added to the troubles for real estate developers. The pressure on sales will reflect in either continued slowdown in construction of the projects or alternatively, it may result in increased debt levels over the medium term.

VEL has significant receivables in the EPC segment, with recoverable due for more than 3 years amounting to Rs.36.49 crore and receivables due for more than 2 years but less than 3 years of about Rs.9.93 crore out of total receivable of Rs. 80.73 crore. Similar challenges faced in the past had led VEL to face liquidity pressures.

Acuite believes that the ability of the company to generate robust bookings from existing projects and significant flow of advances from customers will be key rating sensitivity factor.

- **Delay in monetisation of non-core assets and refinancing risk**

VEL's ability to generate liquidity by monetizing non-core assets had been a key rating sensitivity factor. Company has been exploring options to dispose of assets, which it has recognized as non-core including land in Aurangabad (390,712 square feet), Office in Goa, Just Homes residential apartments (Pune, 12,800 square feet), G3 Office Space (Phoenix Building, Pune), 301 office space Phoenix Building (Pune), Goa Hotel amongst others, totalling to worth of 424.60 crore.

Till date in FY2018 the company has concluded two sales transactions worth Rs.50.00 crore. The first transaction comprised of sale of amenity plot along with school building to Infraschool Services Gurgaon Private Limited for a total consideration of Rs.36.50 crore. The second transaction involved the sale of land situated at village Balewadi, Baner along with all joint venture partners to Keywest Realty Private Limited for a consideration of Rs.100, VEL's share in this sale is Rs.13.10 crore.

VEL had consolidated debt of Rs. 276.36 crore (as on March, 2018) of which short term borrowings were at Rs.111.58 crore and the balance (Rs. 164.78 crore) comprised of long term debt (including NCDs, Term loans from NBFCs, public deposits, etc.) and current portion of debt of Rs.73.83 crore. Included in the Term Loans is a high cost debt obligation from ECL finance Limited amounting to Rs.95 Cr, which is at a cost of 17.10 per cent. VEL has re-negotiated the terms of its privately placed NCD (unrated, unlisted, secured, Non-Convertible Debentures) repayment twice, and seek a waiver of approximately Rs.10 crore has been approved by the NCD holders. Current outstanding of NCDs after repayment stands at Rs.28.21 crore.

Acuite believes that the ability of the company to further generate liquidity by monetizing the non-core assets will be a key rating monitorable.

Liquidity Position

VELs liquidity position remains under pressure in the backdrop of repayment of high cost debt obligations further accentuated by sluggish sales growth in real estate segment and challenges faced in unwinding of non-core assets. Presently is in advanced stages of getting its ECL loan refinanced and also raising additional debt to meet general corporate purposes. Since this fresh loan will be of a longer tenor, this refinancing is expected to partly alleviate its liquidity pressures and align its debt maturity profile with its cash flows from operations.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	539.07	490.15	587.80
EBITDA	Rs. Cr.	8.41	(2.60)	40.90
PAT	Rs. Cr.	5.25	1.21	9.21
EBITDA Margin	(%)	1.56	(0.53)	6.96
PAT Margin	(%)	0.97	0.25	1.57
ROCE	(%)	3.42	4.12	5.82
Total Debt/Tangible Net Worth	Times	0.41	0.41	0.45
PBDIT/Interest	Times	1.06	1.12	1.58
Total Debt/PBDIT	Times	5.97	5.20	4.22
Gross Current Assets (Days)	Days	573	596	496

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Sep-2017	Cash Credit	Long Term	73.00	ACUITE BBB- / Stable (Assigned)
	Proposed Term Loan	Long Term	37.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	73.00	ACUITE BBB- / Negative (outlook changed to Negative from Positive)

Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB- / Negative (outlook changed to Negative from Positive)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A3 (Reaffirmed)

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About Acuite Ratings & Research:

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