

## Press Release

### Vascon Engineers Limited

March 24, 2020



### Rating Assigned and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 388.00 Cr. (Enhanced from Rs. 250.00 Cr.)
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook: Negative (Reaffirmed & Assigned)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed a long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' on the Rs. 233.00 crore facilities of VASCON ENGINEERS LIMITED (VEL). The outlook is '**Negative**'.

Also, Acuite has assigned a long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 155.00 crore facilities of VEL.

VEL is a Pune-based player, engaged in engineering, procurement and construction (EPC), 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, Vascon EPC Limited. Associates and Joint Ventures of VEL include Phoenix Ventures, Cosmos Premises Private Limited, Vascon Saga Construction LLP, Vascon Qatar WLL, Mumbai Estates Private Limited and Ajanta Enterprises. Extent of Consolidation: Full.

### Key Rating Drivers

#### Strengths

#### • Established track record of operation and experienced management

VEL is a Pune-based player, engaged in EPC, real estate construction and development. The company was incorporated in January 1986, being in the construction business for over 3 decades, the company has gained strong technical and design expertise. Mr. Sidharth Vasudevan is the managing director of the company. He is a qualified engineer – with Diploma in Engineering from Sinhgad Institute of Technology and has done Bachelors of Applied Sciences in Construction Management from Singapore. The company has a strong and capable second line of management with people who have 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. 2002.65 crore as on December, 2019 to be executed over the next three years.

## Weaknesses

### • Pressure on the business risk profile due to subdued traction in key real estate projects

Business risk profile continues to remain under pressure due to subdued traction in key real estate project sales. Currently VEL has four major ongoing projects - Windermere Tower I & II, Vascon Goodlife, Platinum Square II, Forest Edge A & B and Forest County Tower N & W (Kharadi). Though the co. has demonstrated higher traction in lower ticket projects such as Platinum Square, Forest Edge tower A and Forest County Tower N & W (Kharadi), however bookings and customer advances from the key projects like Windermere Tower I & II, has remained sluggish. The booking and customer advances for Windermere Tower I stood at 41 per cent and 70 per cent respectively and for Tower II it stood at 68 percent and 81 percent respectively. Total customer advances received to total bookings value, for the ongoing projects are around 52 per cent as on December 2019.

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.

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.

### • Significant portion of receivables in EPC segment with elongated ageing

VEL has significant receivables in the EPC segment, with recoverable due for more than 3 years amounting to Rs. 42.25 crore and receivables due for more than 2 years but less than 3 years of about Rs. 3.79 crore out of total receivable of Rs. 89.35 crore. The overall revenue from the EPC segment stood at Rs. 282.25 crores in FY2019. Similar challenges faced in the past had led VEL to face liquidity pressures. Acuite believes that the ability of the company to realize the sticky receivables with ageing of above 3 years and faster realization of receivables from EPC projects going forward will be a key rating sensitivity.

## Liquidity Position: Stretched

VEL's liquidity position remains under pressure in the backdrop of repayment of debt obligations further accentuated by sluggish sales growth in real estate segment. The company also has significant EPC receivables in the above three years aging bracket thus making it dependent on bank borrowings for funding its working capital. The average utilization of bank limits for the six month period ended January 2020 remains at ~ 90 percent. However, the company has demonstrated its ability to improve liquidity by monetizing its non-core assets. Acuite believes the company's liquidity position to be under pressure on account of sluggish sales growth in the real estate segment and high utilization of the bank limits partially mitigated by its monetization of non-core assets.

## Rating Sensitivities

- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.
- Continuation in slowdown of customer bookings and advances leading to inventory built-up will be a key rating sensitivity.

## Material Covenants

None

## Outlook: Negative

Acuite believes that outlook for VEL will continue to remain 'Negative' over the medium term owing to its lower than expected sales and customer advances from the ongoing real estate projects and elongated working capital cycle in the EPC segment increasing dependency on the bank borrowing. The outlook may be revised to 'Stable' in case the company registers significant improvement in sales and customer advances from the ongoing real estate projects and significant improvement in working capital cycle in the EPC segment. Conversely, the rating may be downgraded in case of slower than expected traction in real estate segment and any deterioration in working capital management leading to liquidity pressures.

### About the Rated Entity – Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	527.75	539.07
Profit after Tax (PAT)	Rs. Cr.	5.28	5.23
PAT Margin	(%)	1.00	0.97
Total Debt/Tangible Net Worth	Times	0.36	0.41
PBDIT/Interest	Times	1.12	1.06

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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. Crore.)	Ratings/Outlook
07-Jan-2019	Cash Credit	Long Term	73.00	ACUITE BBB-/Negative (Outlook revised to Negative from Stable)
	Proposed Term Loan	Long Term	37.00	ACUITE BBB-/Negative (Outlook revised to Negative from Stable)
	Bank Guarantee/ Letter of Credit	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee/ Letter of Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
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	63.00	ACUITE BBB-/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Negative (Reaffirmed)

Term Loan	18-Oct-2019	Not Applicable	17-Sep-2026	10.00	ACUITE BBB-/Negative (Assigned)
NCD	27-Mar-2019	15.50%	26-Mar-2023	110.00	ACUITE BBB-/Negative (Assigned)
Term Loan	16-Nov-2018	Not Applicable	15-May-2022	35.00	ACUITE BBB-/Negative (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00 (Enhanced from Rs. 20 crore)	ACUITE A3 (Reaffirmed)

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### About Acuité Ratings & Research:

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