

Press Release

Vascon Engineers Limited

May 26, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 401.30 Cr. (Enhanced from Rs. 388.00 Cr.)
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 401.30 crore bank facilities of Vascon Engineers Limited (Vascon). The outlook remains '**Stable**'.

The rating reaffirmation takes into account VEL's strong order book position with orders primarily from Government authorities and department giving revenue visibility and reducing the counter party risk. The rating also draws comfort from the improved liquidity position of the company primarily due to good sales traction in key real estate projects in 9M FY2021 despite overall macro challenges. However the VEL's ability to scale up their EPC operations with higher execution of orders in hand without deterioration in working capital cycle will remain a key rating sensitivity. Good traction in key real estate projects will continue to remain important for generating cash inflows commensurate with VEL's repayment obligations

Vascon is a Pune-based player, engaged in engineering, procurement and construction (EPC), real estate construction and development. The company was incorporated in January 1986 by Mr. Vasudevan. It 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 Vascon along with its subsidiaries, hereinafter referred to as the 'VEL'. 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**

Vascon is a Pune-based player, engaged in real estate construction and development. The company was incorporated in January 1986, being in the construction business for over three decades, the company has gained strong technical and design expertise. Mr. R Vasudevan is the

Executive Chairman of the company. He is a qualified engineer - BE (Civ II) – 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. Mr. Siddharth 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.

• Healthy order book gives revenue visibility

VEL has orders in hands worth ~Rs. 2200 crore as on April 2021. These are expected to be executed over three to five years. The healthy order book gives revenue visibility over the medium term. There exists some risk of concentration in order book as three - four orders make up 20 -30 percent of the total order book. However, the counter party risk on these orders also remains low as more than 75 percent of them are from Government authorities and departments. Some of the order include orders from Maharashtra State Police Housing and Welfare Corporation, Bangalore Metro Rail Department and Mumbai Metro Rail Corporation amongst others. VEL's revenue from EPC segment for FY2020 stood at Rs. 256 crore and Rs. 174 crore for 9M FY2020. For 9M FY2021 it stood at Rs. 186 crore. The EPC segment has helped protect the revenues of the company from significant de growth in overall revenue in spite of lower revenues from real estate segment because of the pandemic.

Acuité believes VEL's ability to scale up its EPC segment without significant adverse impact on its working capital efficiency will remain a key monitorable

• Good traction in key residential projects leading to improved liquidity

VEL has been able to report good traction in its key real estate projects in spite of overall revenue from real estate segment being affected by COVID 19 pandemic and related lockdowns. This is primarily on account of renewed focus on its key projects like Windermere along with favorable Government policies such lowering of the stamp duty in Q3 and Q4 of the FY2021. VEL has four ongoing projects Windermere, Forest Edge, Forest County and Vascon Goodlife. VEL's cumulative revenue from Windermere project stood at Rs. 281 crore as on December 31, 2020 against Rs. 241 crore in the previous year. VEL's cumulative revenue from Forest Edge project stood at Rs. 94 crore as on December 31, 2020 against Rs. 63 crore in the previous year. VEL's cumulative revenue from Forest County project stood at Rs. 126 crore as on December 31, 2020 against Rs. 116 crore in the previous year. VEL's ongoing project carry low funding risk as three out of the four ongoing projects the cost to be incurred can be covered by receivable on units already sold and for the rest it has undrawn debt and customer advances. This traction has also helped the VEL reduce its overall long term debt by around 19 percent. At consolidated level its term and working capital debt stood at Rs. 191.19 crore in as on March 31, 2021 against Rs. 234.53 crore as March 31, 2020.

Acuité believes VEL's ability to maintain traction in key real estate project will be key in generating cash inflows commensurate with its repayment obligations.

Weaknesses

• EPC operations are working capital intensive

VEL's EPC operations are working capital intensive. This is primarily on account of high receivable which include retention money it has to keep with clients (10-15 percent). VEL has significant receivables in the EPC segment, with recoverable due for more than 3 years amounting to Rs. 46.05 crore and receivables due for more than two years but less than three years of about Rs. 5.94 crore out of total receivable of Rs. 87.74 crore as on March 31, 2020.

Acuité believes that the ability of the VEL 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.

• Susceptibility to real estate cyclical and regulatory risks

Susceptibility to real estate cyclical and regulatory risks The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region-specific presence. The risks associated with real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. VEL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate

sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt, which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduce prices to augment sales growth. Further, the industry is exposed to regulatory risk, which is likely to impact players such as VEL, thereby impacting its operating capabilities

Liquidity Position: Adequate

VEL's real estate operations are expected to generate adequate liquidity to cover its repayment obligations. Its cash inflows from EPC as well real estate segment are expected to be in the range of Rs. 120 -160 crore against repayment obligations in the range of Rs. 40- 55 crore in FY2022-23. Although repayment obligations are primarily in the real estate segment support is available from VEL's EPC operations which are expected to scale up on the back of healthy orders in hand. However this is constrained to some extent as VEL's EPC operations are working capital intensive as the company has to maintain some portion of the receivable as retention money (10 percent-15 percent). This makes the company dependent on external bank borrowings. Bank limit utilization for EPC segment stood almost full at ~95 percent for six month period ended February 2021. However the overall liquidity position of the company is expected to remain adequate on account of adequate cash flow against repayment obligations constrained to some extent by working capital intensive EPC operations.

Rating Sensitivities

- VEL's ability to scale up its EPC operations without deterioration in working capital cycle will remain a monitorable
- VEL's ability to maintain traction in key real estate projects will remain key rating sensitivity

Material Covenants

None

Outlook: Stable

Acuité believes that VEL will maintain a 'Stable' outlook over the medium term owing to its experienced management, long operational track record and healthy EPC order book. The outlook may be revised to 'Positive' in case the company registers sustainable sales traction in their key real estate project along with higher than expected revenue from their EPC segment. Conversely, the outlook may be revised to 'Negative' in case of steep decline in sales traction in real estate project and slower than expected pick up in the EPC revenues leading to adverse impact on VEL's liquidity profile.

About the Rated Group – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	523.82	527.75
Profit after Tax (PAT)	Rs. Cr.	39.74	5.28
PAT Margin	(%)	7.59	1.00
Total Debt/Tangible Net Worth	Times	0.35	0.36
PBDIT/Interest	Times	3.68	1.12

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
17-May-2021	Cash Credit	Long Term	63.00	ACUITE BBB-/Stable (Reaffirmed; Outlook Revised)
	WCDL	Long Term	6.30	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed; Outlook Revised)
	WCTL	Long Term	1.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed; Outlook Revised)
	Term Loan	Long Term	35.00	ACUITE BBB-/Stable Reaffirmed; Outlook Revised)
	Term Loan (COVID)	Long Term	3.19	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	110.00	ACUITE BBB-/Stable (Reaffirmed; Outlook Revised)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	2.81	ACUITE A3 (Assigned)
24-Mar- 2020	Cash Credit	Long Term	63.00	ACUITE BBB-/Negative (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB-/Negative (Assigned)
	NCD	Long Term	110.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB-/Negative (Assigned)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
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)
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***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-/Stable (Reaffirmed)
WCTL	Not Applicable	Not Applicable	Not Applicable	11.30 (Enhanced from Rs. 6.30 Crore)	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
WCTL	Not Applicable	Not Applicable	Not Applicable	2.00 (Enhanced from Rs. 1.00 Crore)	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	18-Oct-2019	Not Available	17-Sep-2026	10.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	6-Nov-2018	Not Available	15-May-2022	35.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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