

Press Release

Vascon Engineers Limited

February 25, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	120.56	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	180.00	-	ACUITE A3+ Reaffirmed
Non-Convertible Debentures (NCD)	110.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	410.56	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 300.56 crore bank facilities of Vascon Engineers Limited (VEL). The outlook remains '**Stable**'.

Acuité has also reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 110.00 crore Non-Convertible Debentures of VEL. The outlook is '**Stable**'.

Rationale for the Rating Reaffirmation

The reaffirmation takes into account the improved performance of the VEL's EPC division and healthy collections in the key real estate projects. EPC segment revenue stood at Rs. 176 Cr. for H1 FY2022 against Rs. 297 Cr in FY2021 and Rs. 256 Cr. FY2020. Average quarterly collection from key real estate projects has been 33 Cr. for the past three quarters. Further VEL has also raised equity of Rs. 70 Cr. Q3 FY2022. The improved performance of the EPC as well as the real estate division has improved the liquidity and financial risk profile. VEL has been able to reduce its long term debt to Rs. 54 Cr. as on September 30, 2021 from Rs. 123 Cr. as on March 31, 2021. Further part of the capital raised will also be used to fund the working capital requirement of VEL. This alongwith its healthy unexecuted orderbook of ~ Rs. 2000 Cr. as on date provides revenue visibility over the medium term. The rating also draws comfort from the turnaround in operating performance of VEL's subsidiary GMP Technicals which had reported operating loss till FY2019. However VEL's real estate projects remain in the construction stage and are susceptible to execution risk. Any slow down in sales and collection traction is likely to have a negative bias on the rating. Further the EPC operations remain working capital sensitive and VEL's ability to restrict any working capital cycle elongation will remain key rating monitorable going forward.

About the Company

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 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. Under the EPC segment VEL executed construction contracts. It primarily caters to Government departments and authorities.

About GMP Technicals Solutions Private Limited (GTSPL)

GTSPL is a manufacturer of cleanrooms partitions, doors, fire rated doors and other cleanroom equipment. GMP also specialises in undertaking turnkey cleanroom projects for various industries like pharmaceutical, biotechnology, semiconductors, food processing, precision engineering, automobiles and optical manufacturing. It was established in 2005, and has completed over 1300 cleanroom projects. It caters to both domestic as well as export markets. GTSPL is an ISO 9001:2015 certified company and has two manufacturing facilities at Baddi (Himachal Pradesh) and Bhiwandi (Mumbai).

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 'Vascon'. 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, Marathwada 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 Chairman Emeritus 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. 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

Vascon has orders in hands worth ~Rs. 2500 Cr. as on December 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 75-80 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. Vascon's revenue from EPC segment for FY2021 stood at Rs. 297 Cr. against Rs. 256 Cr. for FY2020. Further, it has recorded EPC revenue of Rs. 176 Cr. for H1 FY2022. The EPC segment has helped protect the revenues of the company from significant de growth in overall revenue in spite of lower revenues from relatively real estate segment because of the

pandemic. Acuité believes Vascon's ability to scale up its EPC segment without significantly adverse impact on its working capital efficiency will remain a key monitorable.

Improved liquidity and financial risk profile

Vascon 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. Vascon has four ongoing projects Windermere, Forest Egde, Forest County and Vascon Goodlife. Vascon has reported average quarterly sales and collection of Rs. 20 Cr. and Rs. 33 Cr. respectively for last three quarters. Further, Vascon has raised equity of Rs. 70 Cr. in Q3 FY2022 which has been partially used to prepay long term debt. Vascon long term debt stood at Rs. 54 Cr. as on September 30, 2021 against Rs. 123 Cr. as on March 31, 2021. Vascon's gearing stood at 0.23 times as on September 30, 2021 against 0.30 times as on March 31, 2021. Vascon'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 surplus from other projects. GTSPL (VEL's subsidiary) involved in the clean room doors and other parts manufacturing and installation has seen an improvement in its operating performance. The company has reported revenue of Rs. 152.28 Cr. in FY2021 against Rs. 155.32 Cr. Although the revenue has marginally declined GSTPL has been able to improve its operating profitability. Operating margin stood at 8.64 percent in FY2021 and 6.69 percent in FY2020. It was in loss in FY2019. GMP had faced cancellation of some orders in FY2019 which had adversely affected their profitability. Going forward GTSPL is expected to report moderate growth in revenue while operating profitability is expected to remain comfortable. Acuité believes Vascon's ability to maintain traction in key real estate project and GTSPL stable operating performance will be key in generating cash inflows commensurate with its repayment obligations.

Weaknesses

Vascon's EPC operations are working capital intensive

Vascon's EPC operations are working capital intensive, primarily on account of high receivable which include retention money it has to keep with clients (10-15 percent). Vascon 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 Vascon 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 cyclicity and regulatory risks

Susceptibility to real estate cyclicity 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. Vascon 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 Vascon, thereby impacting its operating capabilities.

ESG Factors Relevant for Rating

The civil engineering industry has employees working in high risk settings, therefore, the safety of the employees and employment quality is a key material issue. Further, because of the working conditions, it is important that human rights of the employees is given due importance. The support and development that the companies render to the community is crucial in determining their societal impact. To avoid defects and safety concerns, the

product quality is another parameter of crucial importance. Other significant issues include compensation of the board and management personnel. Independence and diversity of the board, rights of the shareholders, financial audit and control, audit committee functioning and takeover defense mechanisms are key material issues as well. Vascon's board of directors has six members including two independent directors and one female director. Vascon has undertaken preventive and curative healthcare measures for its construction labour, with the help of Pune Municipal Corporation and NGO. Doctors visits and other healthcare facilities were available to labourers. Temperature tests, blood pressure, oxygen saturation and general health check up was undertaken. A total of 3837 workers benefitted from the check ups. And with the help of PMC health department a total of 8 health checkup camps were held on all the sites in Pune. Total 895 laborers benefitted from these camps. At this camp getting medicines, vitamins as well as iron supplements free of cost was rewarding for them. Construction industry is a hazardous industry, cuts and wounds are very common while working on sites. Labourers were given T. D. vaccine, Anemia is one of the severe problem in women, during the health camp most of the female workers received iron and folic acid supplements at every site. Besides this Vascon also ran a COVID awareness program for its labourers. These efforts underscore Vascon's awareness about its social responsibilities.

Rating Sensitivities

Vascon's ability to scale up its EPC operations without deterioration in working capital cycle will remain a monitorable.

Vascon's ability to maintain traction in key real estate projects will remain key rating sensitivity.

Material covenants

None

Liquidity Position: Adequate

Vascon'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 Vascon's EPC operations which are expected to scale up on the back healthy orders in hand. However this is constrained to some extent as Vascon'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 ~90 percent for six month period ended November 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.

Outlook: Stable

Acuité believes that Vascon 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 Vascon's liquidity profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	506.20	523.82
PAT	Rs. Cr.	(40.28)	39.74
PAT Margin	(%)	(7.96)	7.59
Total Debt/Tangible Net Worth	Times	0.30	0.35
PBDIT/Interest	Times	(0.01)	3.68

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Feb 2022	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.29	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	2.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	2.10	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	21.14	ACUITE BBB Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	86.62	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.78	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Non Convertible Debentures	Long Term	23.38	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.22	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	7.84	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.19	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	110.00	ACUITE A3+ (Reaffirmed)
02 Feb 2022	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Working Capital Term Loan	Long Term	2.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Non Convertible Debentures	Long Term	110.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	35.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	63.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Working Capital Term Loan	Long Term	11.30	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	120.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	11.30	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
		Long		

15 Jun 2021	Proposed Bank Facility	Term	110.00	ACUITE BBB- (Withdrawn)
	Working Capital Term Loan	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Non Convertible Debentures	Long Term	110.00	ACUITE BBB- Stable (Assigned)
26 May 2021	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	11.30	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	110.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB- Stable (Reaffirmed)
17 May 2021	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.19	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	2.81	ACUITE A3 (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	110.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	6.30	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
		Cash Credit	Long Term	63.00
	Term Loan	Long Term	10.00	ACUITE BBB- Negative (Assigned)

24 Mar 2020	Term Loan	Long Term	110.00	ACUITE BBB- Negative (Assigned)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE BBB- Negative (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Negative (Reaffirmed)
07 Jan 2019	Proposed Long Term Loan	Long Term	37.00	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE BBB- Negative (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Catholic Syrian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	63.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Non-Covertible Debentures (NCD)	27-03-2019	15.50	26-03-2023	23.38	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	86.62	ACUITE BBB Stable Reaffirmed
ICICI Home Finance Company Limited	Not Applicable	Term Loan	Not available	Not available	Not available	7.84	ACUITE BBB Stable Reaffirmed
JM Financial Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	21.14	ACUITE BBB Stable Reaffirmed
JM Financial Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	3.19	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.99	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.10	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	11.30	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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