

Press Release

Vascon Engineers Limited

February 25, 2023



Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	120.56	ACUITE BBB Stable Reaffirmed	-
Non Convertible Debentures (NCD)	110.00	Not Applicable Withdrawn	-
Bank Loan Ratings	180.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	300.56	-	-
Total Withdrawn Quantum (Rs. Cr)	110.00	-	-

Rating Rationale

Acuite has reaffirmed and 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**'.

Acuite has also withdrawn its rating on Rs.110Cr Non convertible debentures (NCD's) of Vascon Engineers Limited. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from Vascon Engineers Limited (VEL) and No dues certificate (NOC) received from the trustee.

Rationale for reaffirmation of rating:

VEL's rating reaffirmation considers improved performance in EPC division and continued sales traction in real estate segment of Vascon Engineers Limited (VEL). The revenue from EPC segment stood at Rs.412.96Cr in FY22 and has already reported revenue of Rs.454.73Cr during 9months of FY23 (revenue of 9months FY22 is Rs.282.27Cr). Average quarterly collection in real estate segment during 9 months of FY23 stood at Rs.13.5Cr and sold units worth Rs.64Cr during 9 months of FY23. However, the sales traction on VEL's 'Goodlife' project continues to remain below average. Acuite believes that the sales from Goodlife are expected to remain slower over the near to medium term as the project is far off from the city centre. VEL has successfully sold all units in other five of its projects and construction of few projects is almost completed which shows limited execution risk. Rating also draws comfort from the improving performance of VEL's subsidiary GMP technical solutions private Limited. GMP's turnover is Rs.194.39Cr as on March 31,2022 and already achieved turnover of Rs.170Cr as per YTD figures till December, 2022. With healthy order book of Rs.228 Cr which are to be executed in next 12 months GMP is expected to further improve its operations and profitability. The healthy cash flows from EPC and Real estate segment has resulted in reduction in overall debt levels from Rs.159Cr as on March 31, 2022 to Rs.~143Cr as on December 31, 2022. Any slow down in receivables traction from real estate segment and any infusion of debt in real estate segment leading to negative impact on overall DSCR will be key monitorable aspect.

About 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 the Group company:

GMP technical solutions private limited (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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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, 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.

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.

Steady sales in Real estate projects and Improving Scale of execution and order book position in EPC:

VEL has reported sales of Rs.65.50Cr as on December 31, 2022. VEL has successfully sold five of its projects as on January,2022. Rs.110Cr NCD's taken for Windermere project successfully repaid

during October, 2022 and has collected Rs.40Cr from receivables. This healthy sales and collection has resulted in increase of cash flows during the 9 months of FY23. Revenue from EPC segment stood at Rs.454.43Cr as on December 31,2022 against Rs.282.87Cr for the period December 31,2021. This significant improvement in revenue is mainly due to improved order book and execution of orders during the past 9 months till December,2022. VEL has outstanding orders worth Rs.1,321Cr which are to be executed in next 6-12 months with more than 90% of the orders are from government entities. 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:

VEL's has surplus flow from the real-estate segment and healthy advances from customers in GMP. This has led to prepayment of working capital. Currently VEL has total debt around Rs.80Cr in as per YTD figures December,2023. The overall DCSR of the company stood at 1.31 times. VEL's liquidity is expected to be adequate in the medium term with adequate cash flows from the real-estate and EPC projects. Vascon's gearing stood at 0.19 times as on March 31, 2022 against 0.30 times in previous year. Total debt of vascon came down to Rs.159Cr inn FY22 against Rs.213Cr as on March 31, 2021. Total debt is further expected to come down in FY23 as VEL has prepaid its Non convertible debentures (NCD's) during October, 2022.

Weaknesses

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.

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. 55.03Cr as on December 31, 2022 and receivables due for more than two years but less than three years of about Rs. 13.65Cr out of total receivable of Rs. 107.70Cr as on December 31, 2022. Acuité believes that the ability of the Vascon to realize the receivables with ageing of above 3 years and faster realization of receivables from EPC projects going forward will be a key rating sensitivity.

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. 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. 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. VEL's has surplus flow from the real-estate segment and healthy advances from customers in GMP. This has led to prepayment of working capital. Currently VEL has total debt around Rs.80Cr in as per YTD figures December,2023. The overall DCSR of the company stood at 1.31 times. VEL's liquidity is expected to be adequate in the medium term with adequate cash flows from the real-estate and EPC projects. Cash inflows from EPC as well real estate segment are expected to in the range of Rs. 120 -160Cr in FY2022-23. VEL has prepaid entire Non convertible debentures (NCD's) worth Rs.110Cr (outstanding of Rs.23Cr as on March 31,2022) during October, 2022. Bank limit utilization for EPC segment stood almost full at ~75 percent for 12 month period ended December 31, 2022. 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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	656.86	506.20
PAT	Rs. Cr.	35.92	(40.28)
PAT Margin	(%)	5.47	(7.96)
Total Debt/Tangible Net Worth	Times	0.19	0.30
PBDIT/Interest	Times	3.06	(0.01)

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

None

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2022	Term Loan	Long Term	21.14	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.19	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Working Capital Term Loan	Long Term	11.30	ACUITE BBB Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	86.62	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	7.84	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	23.38	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	100.00	ACUITE A3+ (Reaffirmed)
	Working Capital Term Loan	Long Term	2.10	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.99	ACUITE BBB Stable (Reaffirmed)
	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)

17 Feb 2022	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	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)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
15 Jun 2021	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)
	Proposed Bank Facility	Long 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)	
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)

26 May 2021	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	63.00	ACUITE BBB- Stable (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)
	Bank Guarantee	Short Term	120.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
17 May 2021	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)
	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)
24 Mar 2020	Cash Credit	Long Term	63.00	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Negative (Assigned)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Catholic Syrian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A3+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	53.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Non-Convertible Debentures (NCD)	27 Mar 2019	15.50	26 Mar 2023	Simple / Complex	23.38	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.54	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	86.62	Not Applicable Withdrawn
ICICI Home Finance Company Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.52	ACUITE BBB Stable Reaffirmed
Daimler Financial Services Private Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.53	ACUITE BBB Stable Reaffirmed
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.40	ACUITE BBB Stable Reaffirmed
Aditya Birla Capital	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	27.54	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.10	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	11.30	ACUITE BBB Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.63	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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