

**CMP: INR 17 M Cap : INR 306cr**

Vascon infrastructure is 30 plus year old company and initially commenced their business as an EPC services company and later they diversified into the real estate development including owning and operating projects.

The company's EPC services include constructing factories, hospitals, hospitality properties, office and residential complexes, shopping malls, multiplexes, IT parks, and other buildings. They also engage in the identification and acquisition of land; ownership and operation of projects; and the development of residential and office complexes, shopping malls, multiplexes, hospitality properties, IT parks, and other buildings.

### Key Positive Triggers

**Debt reduction:** Since 2019, The company has been focusing on trimming down its debt and improve its liquidity. The company has already reduced its net debt from ~ INR 300 crores substantially. The Company has net debt of around INR 127 cr as on December 2020. Net debt is expected to reduce around INR 50 Cr backed by healthy revenue flow from EPC and real estate sector and asset monetization of company's properties. Cost of debt is also expected to reduce by 150 bps from current 16%. We believe cost of fund to trim down substantially as they are expected to complete old real estate projects.

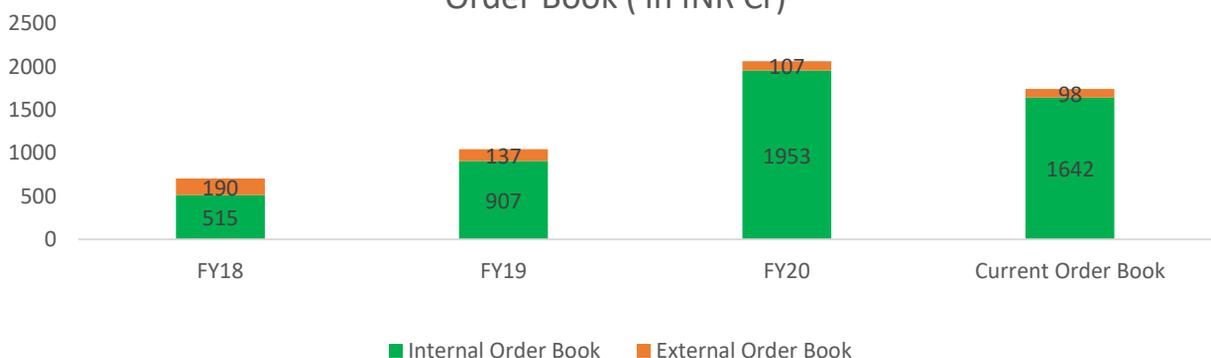
**Asset monetization:** The company has plan to monetize non core assets which would lead to strengthen its balance sheet which include selling of its stake in Goa hotel, Caledonia stake sale (Andheri East) & Aurangabad land sale which should contribute INR 80-90 cr to the company. In next 24 months, company is also looking to sale its Thane land & monetize its stake in GMP solutions.

**Healthy order book & strong Bid pipeline** Company has order book of around INR 1742cr as on Q3FY21 and all are live and running projects. From order book of INR 1742CR around INR 500-600 cr is expected to materialize in next 12 months. The bid pipeline of the company is around 5000 cr the success ratio is of around 4% which will help generating further revenue of around 200 cr In the coming years company expects to generate a topline of around INR 600 cr from EPC segment.

**Healthy margins :** Company has a healthy gross margin in the EPC & real estate segment In EPC segment is around 18-19% and in Real estate segment its around 20-25% Margin are expected to further improve with growth in topline and cost reduction measures undertaken by the company. We are expecting EBIDTA margins to remain between 11-13% on consolidated basis.

**Cash flow to strengthen further:** The company is not looking to invest anything in existing projects in EPC segment. We are positive surprised by management focus on cash flows and believe should augur well for the company.

Order Book ( in INR Cr)



**Key Management Meet Highlights:**

- Company operates in EPC and real estate segment. Company executes private and government EPC projects purely restricted to buildings. Company is not into other infrastructure like Road, power plant etc.
- Last few years were tough for the company as company went into re organization process In 2012 company had a topline of INR 1000 cr and from 2013 the downfall started mainly due to downfall in Industry.
- In 2016 company did a right issue of around INR 100cr at around INR 50 which helped to reduced debt till serviceable levels. Company has solved bank guarantee problem also which was preventing them from taking new orders.
- Company foresees March to be a good year for the company in terms of topline as well as profitability.
- Asset monetization likely to take place of property at Goa, Aurangabad & Mumbai. Company also has a property in Andheri ( Kaledonia) of about 20 CR which also company is planning to exit along with other properties.
- Company has a strategic Investment in GMP which the company plans to exit at correct valuation as it is a noncore activity for the company.
- Goa hotel should fetch the company around INR 50 cr Andheri property should fetch around INR 20 Cr Aurangabad land to fetch around 30-35 Cr.
- Company holds 85% stake in GMP and it bought GMP in 2013 for INR 68Cr.
- Topline of GMP for FY21 is INR 160cr and for FY22 topline would be around 180-200 Cr.
- Company has order book of around INR 1742cr as on Q3FY21 and all are live and running projects.
- Company has received all approvals for Mumbai metro project and initial work has started.
- From order book of INR 1742CR around INR 550-600 cr is expected to materialize in next 12 months.
- From real estate segment company is expecting revenue recognition of 80-120 cr in FY22.
- Company is seeing momentum in real estate segment where customer needs larger homes. Company is seeing traction in the luxury segment in project of Windermere
- Company existing project at Kharadi Pune are basically based on larger homes and is expected to receive higher sales response.
- Next year revenue recognition is likely to come from Forest Edge, Forest country and vascon good life projects.
- Company expects to liquidate most of its inventory by second quarter of FY22.
- Company expects the quantum of debt as well as cost of debt for real estate ( Windermere) to reduce by second quarter of FY22. Cost of debt is expected to be reduced by 150 bps from current 16%.
- Net Debt has on December 2020 is INR 127cr which is expected to reduce by 5-10 cr in this quarter.
- Net debt on EPC to continue in the range of INR 30-40 Cr and no intention to bring down that debt as company is planning to grow EPC.
- Gross Margin in Kharadi Project would be around 50%, for Vascon, Good life it would be around 35-40% and Coimbatore is 25-27%.
- Forest edge Tower 1 and 5 building in “Good life” expected to be completed by next year.
- Market share of organized player in Pune is likely to be around 40 to 45% by end of this financial year. The organized players have gained market share in last few quarters.
- In kharadi forest county project company's pricing is higher by 15% than other players still company was able to sale faster and enjoys niche position there.
- Company expects a cash flow of around INR 120cr from Windermere project for its share and would lead to free cash flow of INR 25 crores.
- Excluding Windermere company has inventory of around INR 40Cr.
- Company has strength of around 700 employees with approx. 400 people working on site and company currently has around 150 engineers.
- On the EPC front Raipur project started well before covid and is currently generating a revenue of INR 10-12 cr per month more than INR100cr execution done already. In police Housing work project in Mumbai work was stuck during covid but now the work has started. Company is constructing total 7 buildings out of which 3 building work is going at full speed, 4 more building work is yet to start which company expects to start by April 2021.
- On Mumbai PHW project currently company is generating around INR 5-6cr of revenue but once the 4 building are ready company will generate around INR 10-15 Cr
- Raipur project is expected to be completed within 2 years from now and police housing project is expected to complete within 4 years.
- Gross Margin on EPC project is around 18-19%
- Company does not take a project unless it will fetch a Gross profit of around 15%
- International order of INR 22 cr recived by GMP in IRAQ
- The Bid pipeline currently is around 5000 cr but success rate is around 4%
- Cost reduction measures taken during covid but it is not sustainable and the administration cost cut during covid times will be back from FY22.
- The company is now moving up value chain in terms with orders and can execute orders between INR 300-INR 800 crores.
- Company has a land of 145 acers in Thane anjur having a Market Value of INR 725 CR
- Currently company has a working capital facility of INR 73 cr for EPC division, and company does not intend to increase the same till it reaches the turnover of INR 750 cr in EPC division

## Current Real Estate Projects Under Development

Project Name	Location	Vascon Share		Total			Vascon Share			
		Type	Share (%)	Project Area (msft)	Area Sold (msft)	Sales Value (in Cr)	Collection (in Cr)	Sales Value (in Cr)	Collection (in Cr)	Rev Recognize (in Cr)
Forest Edge	Pune	JV	50	0.16	0.13	94	58	47	29	-
Forest Country	Pune	JV	50	0.18	0.17	127	38	64	19	-
Windmere Residential	Pune	JDA	45	0.38	0.25	304	253	137	114	149
Platinum Square (1&II)	Pune	JV	70	0.14	0.14	140	131	98	92	98
Vascon Goodlife	Talegoan	OWN	100	0.46	0.18	65	29	65	29	-
Xotech (I&II)	Hinjewadi	JV	50	0.08	0.08	36	35	18	17	18
<b>Total</b>				1.4	0.95	766	544	429	300	265

Source: Arianth Research, Company Filings, Bloomberg Consensus

## Upcoming Real Estate Projects –Pipeline

Projects	Type	Segment	Total		Vascon Share	
			Saleable Area (msft)	Expected Sales value( in CR)	Saleable Area (msft)	Expected Sales Value ( in CR)
Coimbatore	JDA	Residential	0.3	195	0.21	136
Madurai	JDA	Residential	0.49	220	0.37	165
4 Acre HDH Phase 1	JV	Residential	0.26	195	0.13	97
4 Acre HDH Phase 2	JV	Residential	0.25	180	0.11	90
<b>Total</b>			1.3	790	0.82	488

Source: Arianth Research, Company Filings, Bloomberg Consensus

**Outlook :** We believe company is doing right chord with focus on cash flows and it is visible in Balance sheet of the company. The company has been focusing on margins and strong order book give confidence to the company for biding projects as per their internal IRR requirement. We believe company can do topline of INR 700 crores and INR 900 crores on conservative basis in FY22 and Fy23 respectively with 12% EBIDTA margins would lead to EBIDTA of INR 84 & 108 crores on conservative basis, On FY23 basis, company trades at ~3x EV/EBIDTA at cmp of INR 17. Value unlocking from real estate business would be a big trigger for the company ( Thane Land)

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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