

July 26, 2023

To,
National Stock Exchange of India Limited
 Listing Department,
 Exchange Plaza,
 Bandra (E), Mumbai – 400 051

To,
BSE Limited
 The Department of Corporate Services
 Phiroze Jeejeebhoy Towers, Dalal Street,
 Mumbai 400 001

Ref Symbol: **VASCONEQ**

Ref: **Scrip Code: 533156**

Sub: Intimation of Revision in Ratings under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: Credit rating by CRISIL Ratings Ltd (“CRISIL”)

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in accordance with the said Regulation(s), we wish to inform you that CRISIL Ratings Ltd (“CRISIL”) (“Credit Rating Agency”) has informed us the following upgradation in Credit Ratings of Vascon Engineers Limited.

Facilities	Existing		Revised	
	Amount (in Crs)	Ratings	Amount (in Crs)	Ratings
Long Term Ratings (Fund Based Facilities)	INR 153.00	CRISIL BBB Stable (Assigned)	INR 154.00	CRISIL BBB+ Stable (Assigned)
Short Term Ratings (Non-Fund Based Facilities)	INR 300.00	CRISIL A3+ (Assigned)	INR 299.00	CRISIL A2 (Assigned)

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed.

A copy of the Press Release issued by CRISIL in this regard is available on their website at the given below link:

<https://www.crisilratings.com/en/home/our-business/ratings/company-factsheet.VASENGG.html>

This is for your information and records.

For Vascon Engineers Limited

Somnath Biswas
Chief Financial Officer

Encl : as above

Rating Rationale

July 25, 2023 | Mumbai

Vascon Engineers Limited

Ratings upgraded to 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	Rs.453 Crore
Long Term Rating	CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')
Short Term Rating	CRISIL A2 (Upgraded from 'CRISIL A3+')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Vascon Engineers Limited (VEL) to '**CRISIL BBB+/Stable/CRISIL A2**' from 'CRISIL BBB/Stable/CRISIL A3+'.

The upgrade in the ratings reflect the overall improvement in the operational and financial risk profile of the company driven by its execution track record in the engineering, procurement and construction (EPC) as well as higher deliveries in the real estate segment and stable performance of GMP Technical Solutions Pvt Ltd, leading to ~50% growth in the operating income to Rs. 1019 crore in fiscal 2023 from Rs 657 crore in fiscal 2022. This along with robust operating profit margins lead to healthy net worth of Rs 908 crore and consequently led to improved leverage indicators as reflected in TD/OPBDITA of 1.1 times, interest cover of 5.01 times and TOL/TNW of 0.8 times as on March 31, 2023. Going forward, CRISIL's expects the operating performance of VEL to be sustained on the back of stable cash-generating EPC business duly supported by adequate external order book of Rs. 1739 crore as on March 31, 2023, which is estimated at 2.5 times of its FY2023 operating income (OI), providing revenue visibility. Consolidated revenue is expected to increase ~7%, aided by EPC revenue which is expected to reach ~Rs. 700-730 crore in fiscal 2024 and stable manufacturing segment. Further, real estate collections are expected to increase gradually and will improve in the ongoing fiscal with healthy launch pipeline and committed receivables of Rs 111 crore as on March 31, 2023. The debt protection metrics are also expected to remain healthy with gearing of under 0.3x and TOL/ANW of ~0.8 times over the medium term.

The rating takes comfort from the adequate buffer in both fund-based and non-fund-based facilities post enhancement in the working capital limits. The rating continues to derive comfort from the extensive experience of the company's promoters, its healthy execution track record in the civil construction business and its reputed clientele comprising primarily public sector/Government entities, resulting in moderate counterparty risk. Unencumbered cash and equivalents stood at Rs 13 crore as on June 30, 2023 at the standalone level. VEL is likely to maintain cushion of 10% of the working capital limit and unencumbered cash and equivalents of Rs 7 crore for any agency.

These strengths are partially offset by large working capital requirement, large slow-moving real estate inventory and exposure to intense competition and cyclicity in the EPC segment.

Analytical Approach

CRISIL Ratings has considered the consolidated financial and business risk profile of VEL along with its subsidiaries. The consolidation is on account of the common management and business synergies among the group companies.

Subsidiaries of the company include Marvel Housing Pvt Ltd, Vascon Value Homes Pvt Ltd, GMP Technical Solutions Pvt Ltd, GMP Technical Solutions Middle East (Step Subsidiary), Almet Corporation Ltd, Marathawada Realtors Pvt Ltd and Vascon EPC Ltd. Associates and joint ventures of VEL include Phoenix Ventures, Cosmos Premises Pvt Ltd, Vascon Saga Construction LLP, Vascon Qatar WLL, Mumbai Estates Pvt Ltd and Ajanta Enterprises, Vascon Developers LLP

Extent of Consolidation: Full

Interest-bearing mobilisation advances have been treated as debt.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy financial profile and credit metrics

There has been continued improvement in VEL's operational and financial profile supported by steady execution, healthy profitability and healthy accretion of reserves. The healthy profit margins and accruals are driven by the prudent project bidding, stable manufacturing segment and higher deliveries in the real estate segment in fiscal 2023. Further, the presence of price escalation clauses in most of the outstanding contracts in the order book reduces the exposure to raw material price volatility to an extent. With healthy accretion to reserves, VEL's net worth increased to Rs. 908 crore as on March 31, 2023 from Rs. 806 crore as on March 31, 2022. This along with low debt levels led to improved credit metrics as reflected in TD/OPBDITA of 1.1times, TOL/TNW of 0.79 times and interest coverage ratio of 5.01 times as on March 31, 2023, vis-à-vis TD/OPBDITA of 8.0 times, TOL/TNW of 0.8 times and interest coverage of 3.09 times as on March 31, 2022. Going forward, it is expected that the credit metrics will remain healthy with TOL/TNW to remain below 0.8 time and TD/ OPBDITA to remain below 2.0 times in the medium term.

As on June 30, 2023 unencumbered cash and equivalents stood at Rs 13 crore at the standalone level. VEL is likely to maintain cushion of 10% of the working capital limit and unencumbered cash and equivalents of Rs 7 crore for any exigency.

Established position in EPC (buildings), supported by healthy order book and counterparty profile

VEL benefits from the established track record of the management in executing construction contracts for the infrastructure, real estate and manufacturing segments on an EPC basis. The company also has strong technical capabilities and domain expertise in the construction and execution of complex projects.

The company had external orders worth Rs 1,739 crore as on Mar 31, 2023, and plans to continue to focus on government projects. Furthermore, almost 78% of the orders are derived from government projects, which lends visibility to the uninterrupted cash flow, thereby providing assurance of stable operating performance over the medium term and supporting the business risk profile.

Weaknesses:

Large working capital requirement and large slow-moving real estate inventory

The company's operations are working capital intensive operations on account of its real estate business. Inventory remained stretched over the last two years because of the strong backlog as a result of unsold real estate units, which stood at Rs 257 crore (excluding Rs 148 cr as land and development potential) as on March 31, 2023. Receivables have been on an improving trend since the government bodies became the main counterparty for the EPC business. The company will continue to focus on government-related projects, which will help keep the receivables low. With a proportion of revenue from the EPC business expected to be stable over the medium term, receivables are likely to remain at 80-90 days. However, liquidation of some of the slow-moving inventory will remain a key monitorable.

Exposure to risks related to saleability of real estate projects

Saleability and implementation risks in the real estate sector persist, as reflected by sharp fluctuations in real estate income, sales and collections over the past few fiscals. In light of the weak demand scenario in the past, certain projects have demonstrated limited progress. Ability to liquidate real estate inventory of ~Rs 257 crore (excluding Rs 148 cr as land and development potential) as on March 31, 2023, delay in completion or launch of real estate projects and any additional debt taken on to support real estate cash flow mismatch will remain a key monitorable.

Liquidity: Adequate

Given the healthy profit margins and comfortable leverage, CRISIL expects the cash flows to be sufficient to meet the company's debt obligations and regular capex outflow. Cash accrual, expected at over Rs 80 crore per annum, along with cash generation from the real estate business, will sufficiently cover yearly debt obligation of Rs 20-30 crore over the medium term.

Unencumbered cash and equivalents stood at Rs 13 crore as on June 30, 2023 on standalone level. Fund-based bank lines of Rs 18.5 crore remained unutilised over the 12 months ended Mar 31, 2023. VEL continues to focus on liquidity management by monetising the non-core assets.

Outlook: Stable

The credit risk profile of VEL should continue to benefit from its healthy order book, improving operating performance, healthy capital structure and adequate liquidity.

Rating Sensitivity Factors

Upward factors

- Significant improvement in revenue while sustaining net cash accrual over Rs. 150 crore and improvement in net cash flow of real estate segment
- Maintenance of financial risk profile with interest coverage over 5 times

Downward factors

- Operating performance further deteriorates, owing to lower-than-expected collections in the real estate business to below Rs. 60 crore.
- Substantial delay in execution of orders or increase in real estate inventory, which may lead to increase in debt thereby weakening capital structure.

About the Company

VEL, based in Pune, is engaged in the EPC, real estate construction and development business. The company was incorporated in January 1986 by Mr Vasudevan and commenced operations through construction of the Patalganga factory of Cipla in November 1986. Up until 1998, the company was a real estate contractor, executing contracts for third parties.

The real estate business of VEL comprises construction of residential and office complexes along with information technology parks, industrial units, shopping malls, multiplexes, educational institutions and hotels. Under the EPC segment, VEL has executed construction contracts. It primarily caters to government departments and authorities. The company, which has presence of more than 30 years in the EPC and real estate industry, has delivered over 200 projects with area of around 50 million square feet under the EPC as well as real estate business.

Key Financial Indicators

Financials as on/for the period ended March 31	Unit	2023	2022
Revenue	Rs crore	1019	657
PAT	Rs crore	99	36
PAT margin	%	9.7	5.5
Adjusted debt/adjusted networkth	Times	0.18	0.22
Interest coverage	Times	5.01	3.09

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Bank guarantee	NA	NA	NA	219	NA	CRISIL A2
NA	Proposed Bank Guarantee	NA	NA	NA	80	NA	CRISIL A2
NA	Cash credit	NA	NA	NA	64	NA	CRISIL BBB+/Stable
NA	Proposed Cash Credit Limit	NA	NA	NA	24	NA	CRISIL BBB+/Stable
NA	Term loan*	NA	NA	Jun-2028	10.92	NA	CRISIL BBB+/Stable
NA	Term loan*	NA	NA	Mar-2027	1.41	NA	CRISIL BBB+/Stable
NA	Term loan	NA	NA	Jun-2026	27.25	NA	CRISIL BBB+/Stable
NA	Proposed Term loan	NA	NA	NA	26.42	NA	CRISIL BBB+/Stable

*Guaranteed Emergency Credit Line

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
GMP Technical Solutions Pvt Ltd	Full consolidation	Subsidiary

Annexure - Rating History for last 3 Years

		Current		2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	154.0	CRISIL BBB+/Stable		--	21-09-22	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	299.0	CRISIL A2		--	21-09-22	CRISIL A3+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	100	State Bank of India	CRISIL A2
Bank Guarantee	40	Union Bank of India	CRISIL A2
Bank Guarantee	39	CSB Bank Limited	CRISIL A2
Bank Guarantee	40	The Karnataka Bank Limited	CRISIL A2
Cash Credit	43	State Bank of India	CRISIL BBB+/Stable
Cash Credit	10	Union Bank of India	CRISIL BBB+/Stable
Cash Credit	10	The Karnataka Bank Limited	CRISIL BBB+/Stable
Cash Credit	1	CSB Bank Limited	CRISIL BBB+/Stable
Proposed Bank Guarantee	80	Not Applicable	CRISIL A2
Proposed Cash Credit Limit	24	Not Applicable	CRISIL BBB+/Stable
Proposed Term Loan	26.42	Not Applicable	CRISIL BBB+/Stable
Term Loan*	10.92	State Bank of India	CRISIL BBB+/Stable
Term Loan*	1.41	Union Bank of India	CRISIL BBB+/Stable
Term Loan	27.25	Aditya Birla Finance Limited	CRISIL BBB+/Stable

*Guaranteed Emergency Credit Line

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Construction Industry
CRISILs Criteria for Consolidation

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