

**Press Release**  
**VGN Homes Private Limited**

May 06, 2020

**Rating Upgraded**



<b>Total Bank Facilities Rated*</b>	Rs.175.00 Cr. (Enhanced from Rs.100.00 Cr.)
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Upgraded from ACUITE B +/ Stable)

\* Refer Annexure for details

**Rating Rationale**

Acuite has upgraded its long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE B+**' (read as **ACUITE B Plus**) on the Rs.175.00 cr. bank facilities of VGN Homes Private Limited. The outlook is '**Stable**'.

The upgrade is in view of significant deleveraging in its debt levels, which was mainly on account of improved sales traction for its plotted projects. The rating upgrade also factors in improvement in the liquidity position, which is marked by prepayment of some part of the long term debt.

Chennai based VGN Homes Private Limited (VHPL) was incorporated in 2004. The company promoted by Mr. V. N. Devadoss is a part of VGN group established in 1942. VHPL is engaged into development of plots and residential projects in and around Chennai.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profiles of the VHPL to arrive at this rating.

**Key Rating Drivers**

**Strengths**

• **Experienced management and Established presence in Chennai**

Mr. V.N. Devadoss, Chairman of the VGN Group, has over three decades of experience in the real estate sector. The company has executed several projects of developing plots and apartments in Chennai. The group has large developable land bank in and around Chennai.

Acuite believes that the management's established track record of successful project execution will continue to support the business risk profile of the VHPL.

• **Improved traction towards projects**

VHPL is currently developing 17 plotted projects and 9 residential projects in Chennai. The company recently launched a new plotted project- VGN CH 40 in December 2019 with total salable area of 1.80 lakh square feet. Within three months of launch, the company has sold area of around 1.17 lakh square feet till March 2020, which has helped in prepaying part of its debt obligation.

**Weaknesses**

• **Inherent cyclicity in real estate sector**

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. VGN Group 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 VHPL, thereby impacting its operating capabilities.

• **Competitive industry scenario**

The real estate market has seen numerous developers operating in the Chennai region because of availability of vast lands. Hence, the competition to lure the buyers in an already subdued demand scenario is intense.

**Liquidity position: Adequate**

VHPL has adequate liquidity position marked by the moderate customer advances to its maturing debt obligations. The company is mainly dependent on customer advances for its debt repayment. The average utilization levels of OD facility is around 90 percent for last six months ended March 2020. Any mismatch between the customer advances and the repayment obligations can have an impact on the liquidity profile of the company.

**Rating Sensitivities**

- Timely project execution as per schedule while achieving the sales traction
- Lower than expected sales traction leading to increased dependence on refinancing of debt will have an negative bias on the rating

**Material Covenants**

None

**Outlook: Stable**

Acuite believes that VHPL will maintain a 'Stable' outlook over medium term on account of established track record of the company in real estate industry. The outlook may be revised to 'Positive' in case the company achieves significantly higher than expected customer advances and booking level along with timely execution of the project. Conversely, the outlook may be revised to 'Negative' in case of slower than expected sales or delay in project execution impacting its debt servicing ability.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	199.95	80.33
PAT	Rs. Cr.	4.80	1.70
PAT Margin	(%)	2.40	2.12
Total Debt/Tangible Net Worth	Times	0.38	0.62
PBDIT/Interest	Times	2.44	1.31

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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. Cr)	Ratings/Outlook
08-May-19	Overdraft	Long term	14.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long term	13.91	ACUITE B+/Stable (Assigned)
	Term Loan	Long term	8.36	ACUITE B+/Stable (Assigned)
	Term Loan	Long term	18.58	ACUITE B+/Stable

				(Assigned)
	Proposed Bank Facility	Long term	45.15	ACUITE B+/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB (Upgraded from ACUITE B+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	13.91	ACUITE BB (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	8.36	ACUITE BB (Withdrawn)
Term loans	May 2015	13.30%	May 2023	14.86 (Revised from Rs.18.58 Cr)	ACUITE BB (Upgraded from ACUITE B+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	146.14	ACUITE BB (Upgraded from ACUITE B+/Stable)

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**About Acuité Ratings & Research:**

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