

Press Release

VGN Homes Private Limited

June 09, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	175.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.175.00 Cr bank facilities of VGN Homes Private Limited (VHPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation:

The reaffirmation of the rating reflects the increase in the sales traction for plotted projects in FY2021 despite Covid-19 impact and comfortable financial risk profile with comfortable debt protection metrics. However, the rating continues to remain constrained on account of working capital intensive operations, fluctuating margins and stretched liquidity position moderate cash accruals against high debt repayment obligations.

About the Company

Chennai-based, VGN Homes Private Limited (VHPL) was incorporated in 2004. The company is promoted by Mr. V. N. Devadoss, Mrs. Padma Devadoss and Mrs. Booma Nandakumar. The company 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 taken a standalone view of the business and financial risk profile of VHPL to arrive at the rating.

Key Rating Drivers

Strengths

>**Experienced management and established presence in Chennai coupled with revenue growth**

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. The turnover of VHPL stood at Rs.253.10 crore in FY2021 against 196.50 crore in

FY2020. The turnover improved majorly due to VGN highness project which generated about Rs.100 crore revenues in the same year. Also, 693 units were registered in FY2021 due to which the revenues increased. Due to the increase in sales, the company was able to do the prepayment of its debt obligation. The Company has already achieved turnover of Rs.149.90 crore for 9MFY2022. The revenues and margins are expected to improve going forward due to the brand established by them and healthy projects position.

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

>Comfortable financial risk profile

Financial risk profile of VHPL is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing stood at 0.32 times as on March 31, 2021 against 0.50 times as on March 31, 2020 on account of plough back of profits to reserves. TOL/TNW stood at 1.57 times as on March 31, 2021 against 2.38 times as on March 31, 2020. Tangible net worth of the company stood at Rs.217.86 crore as on March 31, 2021 against Rs.212.14 crore as on March 31, 2020. Of the total debt of Rs.70.65 crore as on March 31, 2021, long-term debt stood at Rs.38.34 crore, short-term debt stood at Rs.9.82 crore, unsecured loans stood at Rs.13.93 crore and CPLTD stood at Rs.8.56 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 7.00 times and 0.13 times respectively in FY2021; while DSCR stood at 0.83 times in FY2021.

Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of modest net worth backed by healthy cash accruals vis- à-vis moderate debt repayment obligations and comfortable debt protection metrics.

Weaknesses

>Working capital intensive operations

VHPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 730 days in FY2021 against 1230 days in FY2020. The inventory days stood at 449 days in FY2021 against 878 days in FY2020. The company maintains an inventory holding policy of 40-45 days for raw materials. The inventory days were decreased in FY2021 due to improvement in number of units sold. The debtors' days stood at 5 days in FY2021 against 36 days in FY2020. The credit period given to customers is around 45-60 days. The creditors' days stood at 322 days in FY2021 against 1727 days in FY2020. The company enjoys a credit period of 60 days from their suppliers. The payments were delayed to their group companies from whom they purchased some materials. However, working capital limits remains utilized at 76.14 percent for last 6 months ended April, 2022.

Acuité believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

>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.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity Position: Stretched

VHPL has stretched liquidity position marked by the moderate cash accruals against high debt repayment obligations. The company is mainly dependent on debtors for its debt repayment. Current position of cash accruals is at Rs.9.33 crore in FY2021 against high repayment obligations of Rs.8.56 crore. Unencumbered cash and bank balances stood at Rs.8.77 crore as on March 31, 2021 with a current ratio of 1.75 times in the same period. Liquid investments stood at Rs.26.24 crore as on March 31, 2021. However, working capital limits remains utilized at 76.14 percent for last 6 months ended April, 2022.

Acuité believes that any mismatch between the customer advances and the repayment obligations can have an impact on the liquidity profile of the company.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	253.10	196.50
PAT	Rs. Cr.	5.74	4.81
PAT Margin	(%)	2.27	2.45
Total Debt/Tangible Net Worth	Times	0.32	0.50
PBDIT/Interest	Times	7.00	1.53

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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
06 May 2020	Secured Overdraft	Long Term	14.00	ACUITE BB Stable (Upgraded from ACUITE B+ Stable)
	Proposed Bank Facility	Long Term	146.14	ACUITE BB Stable (Upgraded from ACUITE B+ Stable)
	Term Loan	Long Term	8.36	ACUITE BB (Withdrawn)
	Term Loan	Long Term	14.86	ACUITE BB Stable (Upgraded from ACUITE B+ Stable)
	Term Loan	Long Term	13.91	ACUITE BB (Withdrawn)
08 May 2019	Term Loan	Long Term	18.58	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	13.91	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	45.15	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	8.36	ACUITE B+ Stable (Assigned)
	Secured Overdraft	Long Term	14.00	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	115.29	ACUITE BB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	07-07-2021	7.25	31-07-2028	31.00	ACUITE BB Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	28-05-2015	12.35	30-06-2023	7.84	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	30-12-2020	7.50	31-01-2025	2.54	ACUITE BB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	19-12-2020	7.95	31-01-2025	2.89	ACUITE BB Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	26-11-2021	7.65	31-12-2027	1.44	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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