

VBHC Value Homes Private Limited (erstwhile Value And Budget Housing Corporation Pvt Ltd)

May 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	52.50	52.50	[ICRA]BBB (Negative); Revised from [ICRA]BBB+ (Stable)
Unallocated	0.00	25.00	
Fund-based -Term Loan	25.00	0.00	
Total	77.50	77.50	

* Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating assigned to the Rs. 77.50 crore fund based facilities of VBHC Value Homes Private Limited (erstwhile Value And Budget Housing Corporation Pvt Ltd) (VBHC, previously Value and Budget Housing Corporation Private Limited) to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term rating has been revised from Stable to Negative.

ICRA has taken a consolidated view of the VBHC Group, including the parent company VBHC Value Homes Private Limited and its subsidiaries VBHC Mumbai Value Homes Private Limited, VBHC Delhi Value Homes Private Limited, VBHC Delhi Projects Private Limited, VBHC Chennai Value Homes Private Limited, Ivorybrick Homes LLP and VBHDC Bangalore Value Homes Private Limited due to the strong operational and financial linkages among the entities.

Rationale

The rating revision takes into account the Group's adverse sales performance on account of subdued market conditions and project-related challenges. The modest gross margins in the ongoing projects, coupled with the high overheads, resulted in weak profitability metrics for the Group. The rating revision also takes into account the cost escalations across projects which has resulted in recognition of prior-period loss amounting to Rs. 75 crore in FY2017. ICRA also notes that the low ongoing project portfolio provides limited cash flow visibility, thereby increasing the reliance on fresh launches. The assigned rating is also constrained by exposure of the Group to inherent cyclicity in the real estate sector.

However, the rating derives comfort from the regular funding support in the form of interest-free unsecured loans from the promoters, which has lowered the reliance on external debt. Waiver of these promoter unsecured loans have helped reduce the net-worth erosion on account of the high losses incurred. ICRA also derives comfort from the strong promoter profile and the presence of reputed institutional investors including First Caryle, International Finance Corporation, India Financial Inclusion Fund, Van Herk Investments Foundation, Daiwa House Industry, Tano India Private Equity and Ambit Corporate Finance.

Outlook: Negative

The Negative outlook reflects ICRA's expectation that continued low sales velocity and modest project profitability will hamper the free cash flows of the Group, increasing its reliance on external funding. The outlook may be revised to Stable or Positive in case there is significant improvement in sales velocity and project profitability.

Key rating drivers

Credit strengths

VBHC's experienced management and strong promoter profile - The VBHC Group is promoted by Mr. Jerry Rao and has strong investors including HDFC, First Carlyle, International Finance Corporation, India Financial Inclusion Fund, Daiwa House Industry, Tano Capital among others. The promoter and the private equity players have been providing regular support in the form of unsecured loans or fresh equity into the company.

Low gearing levels - Regular equity infusions from private equity investors till FY2016 resulted in a high net-worth base for the company. High net worth and moderate debt levels resulted in a healthy gearing level of 0.50 times as on March 31, 2018. However, a large portion of the value in the company is locked in land bank and liquidation of the same through project launches will be a key monitorable. The outstanding debt of Rs. 184 crore as on March 31, 2018 includes interest-free unsecured loans from the promoter amounting to Rs 47 crore, which the promoters have agreed to waive off. The promoters waived off Rs. 25 crore of unsecured loans in FY2017, which not only helped reduce the company's liabilities but also helped reduce net-worth erosion on account of the high losses.

Satisfactory execution progress - The progress on the projects being executed by the Group in terms of execution and marketing has been satisfactory. The company has delivered 3.3 mn sq ft of area till March 31, 2018 and now has 0.94 mn sq ft of area under development. The pending receivables from the sold areas in ongoing and completed projects of the Group will be sufficient to cover ~40% of the balance cost and external debt outstanding.

Credit challenges

Subdued sales performance in several ongoing projects - The company continues to face challenges in liquidating its inventory in the projects located in Bhiwadi (NCR) and Oragadam (Chennai). The Group's sales declined sharply to 0.11 mn sq ft in CY2017 from 0.48 mn sq ft in CY2016, which is attributable to project-related challenges alongside subdued market conditions and low ongoing project portfolio. However, the sales of the company have recovered sharply in Q1 CY2018 with healthy sales in the Bangalore projects (Kengeri and Kannamangala).

Weak profitability levels - VBHC has poor profitability on account of low gross margins from ongoing projects as well as a high level of overheads, which in turn results in operational cash flow deficits. The management expects profitability to improve with the newer projects in the portfolio having higher realisations. The company's ability to improve profitability is critical for maintaining its liquidity profile and generating sufficient returns from projects. In FY2017, the company recorded a one-time loss of Rs. 75 crore for prior-period expenses due to cost escalations across projects which resulted in high net losses for it. However, the promoter loan waive-off of Rs. 25 crore and profit of Rs. 8.37 crore from stake sale in an associate company helped curtail the losses to an extent.

Exposure to execution and market risks for project launches - The company has low ongoing portfolio, which is inadequate to cover the fixed cost overheads of the Group. The company plans to launch significant area of additional phases in existing projects apart from fresh launches. These, however, expose the company to execution and market risks. With presence mainly in the residential real estate segment, VBHC is exposed to the cyclicity inherent in this sector.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

About the company:

VBHC Value Homes Private Limited (previously Value and Budget Housing Corporation Private Limited; VBHC) is the holding company of the VBHC Group and was incorporated in 2008. The company does not have any operations of its own but holds 100% stake in the SPVs (VBHC Delhi Value Homes Private Limited, VBHC Delhi Projects Private Limited, VBHC Chennai Value Homes Private Limited and VBHDC Bangalore Value Homes Private Limited) of the Group, except VBHC Mumbai Value Homes Private Limited (wherein it has 81% shareholding) and Ivorybrick Homes LLP (wherein it has 51% stake). The VBHC Group is promoted by Mr. Jerry Rao, with focus on the 'affordable housing' segment. The Group at present has four ongoing projects in Kengeri, Bhiwadi, Oragadam and Palghar. These projects are being developed in separate project companies for each of the cities. The Group has also received equity funding from various investors including HDFC, First Carlyle, International Finance Corporation, India Financial Inclusion Fund, Daiwa House Industry, Tano Capital among others.

In FY2018, on a provisional basis, the company (consolidated) reported a loss of Rs. 32.41 crore on an operating income (OI) of Rs. 77.34 crore compared with a loss of Rs. 62.46 crore on an OI of Rs. 141.82 crore in the previous year.

Key financial indicators (consolidated)

	FY2017	FY2018*
Operating Income (Rs. crore)	141.82	77.34
PAT (Rs. crore)	-62.46	-32.41
OPBDIT/OI (%)	1.17	-24.87
RoCE (%)	-7.88	-4.07
Total Debt/TNW (times)	0.29	0.50
Total Debt/OPBDIT (times)	70.79	-9.57
Interest coverage (times)	0.09	-1.80

* Financials for FY2018 are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016
				May 2018	February 2017	May 2016	January 2015
1 Cash credit	Long Term	40.00	40.0	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Cash credit	Long Term	12.50	4.9	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Unallocated	Long Term	25.00	0.0	[ICRA]BBB (Negative)	-	-	-
4 Term Loan	Long Term	0.0	0.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]BBB (Negative)
NA	Cash Credit	NA	NA	NA	12.50	[ICRA]BBB (Negative)
NA	Unallocated	NA	NA	NA	25.00	[ICRA]BBB (Negative)

Source: VBHC Value Homes Private Limited

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