

## Vadehra Builders Private Limited

December 11, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based / Cash Credit	28.00	28.00	[ICRA]BB+ (Stable); Reaffirmed
Non-fund based / Bank Guarantee	11.32	11.32	[ICRA]A4+; Reaffirmed
<b>Total</b>	<b>39.32</b>	<b>39.32</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmed ratings continue to draw comfort from the long track record and established market position of Vadehra Builders Private Limited (VBPL), its reputed art gallery with a sizeable inventory of artwork, as well as its long association with renowned international auction house, Christie's. In its interior design business, the company has established working relationships with its customers and gets repeat orders from the same. Further, VBPL has shown continuous improvement in its working capital intensity over the past three fiscal years. ICRA takes comfort from VBPL's limited indebtedness with no significant repayments to be made in the near future. The ratings also take into consideration the significant reserves of insured valuable art works, including art from world-renowned artists like M.F. Hussain and S.H. Raza.

However, the ratings remain constrained on account of VBPL's modest profitability and return indicators. The ratings also factor in the high geographical concentration of the order book, with most orders from the National Capital Region (NCR). Further, the risk of potential volatility in artwork sales has constrained the ratings.

### Outlook: Stable

ICRA believes that VBPL will continue to benefit from its long track record and established market position. The outlook may be revised to Positive if the company witnesses substantial growth in revenues and profitability, and improvement in return indicators strengthens the financial risk profile. The outlook may be revised to Negative if the scale and cash accrual are lower than expected, and the company's profitability metrics deteriorate.

### Key rating drivers

### Credit strengths

**Long track record of operations in interior designing and art business** - Incorporated in 1983, the company is renowned in the art business in India and has established links with the world's largest auction houses (Christie's), art galleries, and high net worth individuals (HNIs). This apart, the company has also tied up with the Grosvenor Gallery in London. In its interior designing business, VBPL caters to a varied group of clients ranging from housing projects to hospitals, retail malls, multiplexes, hotels and offices. Some of the prominent clients of the company include HCL Technologies Ltd., Mahindra & Mahindra Ltd., PVR Cinema Ltd., Select City Walk, Ireo Private Limited., Medanta Holding Private Limited etc. Over the last two years, the company has been focussing on high quality but small-sized projects for HNIs.

**Improvement in working capital intensity** - The working capital intensity of the company has been better than the previous year (37% in FY2018 compared with 42% in FY2017 and 53% in FY2016) on account of a decrease in inventory and debtor levels. Inventory level typically remains high owing to the nature of the art work business.

**Limited indebtedness with no significant repayment obligations in near future** - The total debt of the company has remained at similar levels of ~Rs. 25.0 crore over the last few years as the major part of the debt is working capital borrowings. The company's long-term debt mainly consists of vehicle loans. As a result, the gearing of the company has remained at similar levels of ~0.5-0.6 times over the last four years. The coverage indicators remain moderate with interest coverage of 1.41 times and DSCR of 1.54 times in FY2018.

**Significant reserve of insured valuable art works** - At present, VBPL has a collection of numerous pieces of art, the market value of which is many times higher than the book value. The company continues to be a leading player in the art circles of the country with access to precious pieces, including works of renowned artists like M.F. Hussain, S.H Raza, Vasudeo S. Gaitonde.

## Credit challenges

**Modest profitability and return indicators** - VBPL's profitability and return indicators remain modest with operating profitability of 3.32% and RoCE of 5.72% in FY2018. The art business has variable profits and high overhead costs that keep the overall profitability modest. This apart, the company often acts as a trading intermediary at Christie's auctions, wherein the margin remains thin. Further, the profitability in interior work business is prone to stiff competition in the Delhi/NCR market.

**Geographically-concentrated order book** - The orders executed in the past shows that the focus of the company is to execute projects within Delhi/NCR or nearby regions where it can have a tighter control over costs and execution. Although VBPL secures some orders from other regions, it remains focused on Delhi/NCR. Thus, it remains exposed to high geographic-concentration risk for its interior designing business.

## Liquidity position

VBPL has a healthy liquidity position with adequate cash and bank balances and moderate utilisation of working capital limits which has been utilised around 66% in the last 12 months. ICRA does not foresee any major concerns on liquidity given no significant debt repayments and absence of any major capex plans.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Parent/Group Company: Not applicable
Consolidation / Standalone	Standalone

## About the firm

VBPL, a closely held company, was incorporated in 1983. It is promoted by Mr. Arun Vadehra. The company's operations are diversified across two main categories, namely trading in works of art and interior design and fit-outs along with furniture manufacturing. In 1987, the company opened its first art gallery – Vadehra Art Gallery (VAG) – to deal in works of art. The company sells art works through auctions for which it has tie-ups with international players such as Christie's, Grosvenor etc. It also sells through its own art galleries. In the interior designing business, VBPL caters to prominent clients including HCL Technologies, PVR Ltd., MGF, IREO, WAVE etc.

In FY2017, the company reported a net profit of Rs. 0.72 crore on an operating income (OI) of Rs. 108.88 crore compared with a net profit of Rs. 0.70 crore on an OI of Rs. 111.14 crore in the previous year.

## Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	111.14	108.88
PAT (Rs. crore)	0.70	0.72
OPBDIT/ OI (%)	3.24%	3.32%
RoCE (%)	6.11%	5.72%
Total Debt/TNW (times)	0.57	0.56
Total Debt/OPBDIT (times)	7.36	7.31
Interest Coverage (times)	1.20	1.41
NWC/OI (%)	42.41%	36.81%

## 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 December 2018	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015
1 Cash Credit	Long Term	28.00	28.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Bank Guarantee	Short Term	11.32	11.32	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

## 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](http://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	28.00	[ICRA]BB+(Stable);
NA	Bank Guarantee	NA	NA	NA	11.32	[ICRA]A4+

Source: VBPL

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