

August 01, 2019

VGN Property Developers Private Limited: [ICRA]B-(Stable) rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]B- (Stable); Assigned

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned takes into account the operating profile of the VGN Group which was established in 1942 and has developed more than 20 million sq. ft. of residential projects in Chennai ranging from affordable housing segment to luxury segment. The Group has considerable land banks in Chennai and is an established player in the plotted layout segment. The company has reduced the external borrowings to Rs 355 crore as on July 2019 from Rs 660 crore as on May 2018, aided by monetisation of certain land parcels.

The rating assigned is, however, constrained by recent delays in servicing of non-convertible debentures issued by the company. The amount due in March 2019 was repaid in April 2019. The rating is also constrained by the higher interest costs for the borrowings of VGNPD. The weighted average interest cost for the external borrowings of VGNPD is around 15.5% per annum. The rating also considers regulatory issues faced by one of the premium projects being developed by the company in the past which had constrained the liquidity profile of the company; nonetheless, the company has subsequently received clearances for restarting work on the project.

Outlook: Stable

ICRA believes that the credit profile of VGNPD will remain stable, supported by the healthy traction of sales and collection in ongoing residential projects of the company and deleveraging achieved over the past 18 months. The outlook might be revised to Positive if the company maintains its sale velocity, while further reducing debt levels. The outlook might be revised to Negative if there is any further increase in leveraging or if there is any slowdown in project sales which might impact the debt repayment capability of the company.

Key rating drivers

Credit strengths

Experience and track record of the VGN Group – The VGN Group was established in 1942 and has developed more than 20 million sq. ft. of residential projects in Chennai ranging from affordable housing segment to luxury segment. The Group has considerable land banks in Chennai and is an established player in the plotted layout segment.

Reduction in debt levels – There has been significant deleveraging in VGNPD over the last year. The company has reduced the external borrowings to Rs 355 crore as on July 2019 from Rs 660 crore as on May 2018, aided by monetisation of certain land parcels.

Credit challenges

Delays in debt servicing in the past – VGPNP had delayed the repayment of interest and principal dues on non-convertible debentures in the month of March 2019. The amount due in March 2019 was repaid in April 2019. As on date, the company has repaid the principal due for the June 2019 quarter as well as part-paid the principal due in September 2019.

High borrowing costs of availed loans – VGPNP has high borrowing costs on its availed term loans and non-convertible debenture programmes from external financial institutions. The weighted average interest cost for the external borrowings of VGPNP is around 15.5% per annum.

Regulatory issues faced by project in the past – The Fairmont project which is currently being developed by VGPNP had faced regulatory issues in February 2018 due to which the project sales and development was stuck for around a year. However, the project has received clearance in May 2019 and the sales and development of the project is currently in progress.

Liquidity position

The company had faced liquidity issues due to cash flow mismatch from operating projects which had led to delay in servicing debt obligations in prior years, including dues as on March 2019. However, the promoters infused funds in April 2019 through sale of land parcels which has been utilised to clear debt obligations as on March 2019 as well as pre-payment of principal due in June 2019 and September 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Ratings: A Note on Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

VGPNP, incorporated in 2008, develops residential projects and layouts in Chennai. The company is fully held by Mr. Pratish Devadoss and his family. VGPNP has delivered 2.8 million sq. ft. of residential projects and is currently developing an additional 6.3 million sq. ft. of apartment projects and plotted layout projects currently.

Key financial indicators

	Audited FY2018	Provisional FY2019
Operating Income (Rs. crore)	342.6	404.1
PAT (Rs. crore)	3.2	4.4
OPBDIT/OI (%)	23.0%	30.1%
RoCE (%)	13.9%	12.8%
Total Debt/TNW (times)	4.3	4.3
Total Debt/OPBDIT (times)	9.9	6.5
Interest Coverage (times)	0.6	1.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					August 2019	-	-
1 Issuer Rating	Long Term	-	-	[ICRA]B- (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
-	Issuer Rating	-	-	-	-	[ICRA]B- (Stable)

Source: VGN Property Developers Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Nishant Mishra

+91 80 4332 6408

nishant.mishra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents