

September 16, 2019

VBHC Mumbai Value Homes Private Limited: Long-term rating downgraded to [ICRA]BB+ from [ICRA]BBB-; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	90.0	90.0	[ICRA]BB+; downgraded from [ICRA]BBB-; outlook revised to Stable from Negative
Total	90.0	90.0	

**Instrument details are provided in Annexure-1*

Rationale

While assigning the rating, ICRA has taken a consolidated view of VBHC Value Homes Private Limited (VBHC) and its subsidiaries (the Group), including VBHC Mumbai Value Homes Private Limited.

The rating revision reflects the continuing adverse sales performance of the VBHC Group because of subdued market conditions and project-related challenges, as well as the delay in monetisation of land assets. The Group's sales during the last 12 months was only Rs 35 crore, majority of which were generated from the Palm Haven project (in Kengeri, Bengaluru); the remaining projects witnessed low sales. The modest gross margin in the ongoing projects, coupled with the high overhead, resulted in weak profitability metrics for the Group, including operating losses in FY2018 and FY2019. ICRA also notes that the low scale of ongoing projects provides limited cash flow visibility, thereby increasing the reliance on fresh launches. The rating is also constrained by the 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 have bridged the shortfall in operational cash flows. ICRA also derives comfort from the strong promoter profile and the presence of reputed institutional investors as shareholders. The rating also considers the planned launch of new phases, which have an expected saleable area of 6.8 lakh sq ft in Palm Haven project at Kengeri in Bangalore. The Group is in advanced stages of signing an agreement with Van Herk Investments Foundation (Van Herk) for the bulk sale of 3.0 lakh sq ft saleable area in the project. The Group is also in discussion for bulk sale of the available units in the Chennai residential project. VBHC Group has also signed term sheets for land tie-ups for new projects in Mumbai and Bengaluru, which are expected to increase the scale of operations.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the operating profile of the VBHC Group will be supported through launch of new phases in the Palm Haven project which has a good sales track record. The Group is in advanced stages of signing an agreement with Van Herk for the bulk sale of 3.0 lakh sq ft saleable area in the project. The land consideration for the sale is expected to be due shortly after finalisation of the agreement and will be utilised to reduce the outstanding debt. The company will also be launching new projects in Bangalore and Mumbai which is expected to increase the scale of operations.

Key rating drivers

Credit strengths

VBHC's strong promoter profile - The VBHC Group is promoted by Mr. Jerry Rao and has strong investors, including International Finance Corporation, Van Herk, Daiwa House Industry, HDFC Limited, Tano India Private Equity and Ambit Corporate Finance among others. The promoters have been providing regular support in the form of unsecured loans or fresh equity.

Low gearing levels - Regular equity infusions from private equity investors till FY2016 have resulted in a high net-worth base for the VBHC Group. High net worth and moderate debt levels ensured healthy gearing level of 0.47 times as on March 2019 (adjusted for promoter loans). However, a large portion of the net worth base is locked in land bank and liquidation of the same through project launches will be a key monitorable. The Group has an outstanding debt of Rs. 193 crore as on June 2019, including interest-free unsecured loans from the promoters amounting to Rs 49 crore. The promoters have waived off Rs 71 crore unsecured loans, which have reduced the total liability of the Group.

Credit challenges

Subdued sales performance in most ongoing projects - The VBHC Group continues to face challenges in liquidating its inventory in most of the ongoing projects other than Palm Haven where the sales velocity is healthy. The Group's sales declined sharply to 1.8 lakh sq ft in CY2018 and 1.0 lakh sq ft in CY2017 from 4.7 lakh sq ft in CY2016. The decline in sales of the Group is attributable to project-related challenges alongside subdued market conditions and low ongoing project portfolio. The sales in CY2019 till date has also been subdued. However, the bulk sale deals planned to be executed in Palm Haven and Chennai residential projects are expected to mitigate the risk to some extent.

Weak profitability levels - VBHC Group has poor profitability on account of low gross margin from ongoing projects as well as a high level of overheads, which in turn results in operational cash flow deficits. The management expects the profitability to improve with the newer planned project launches, which will have higher realisations. The management has also undertaken a cost reduction exercise which is expected to reduce the employee expenses going forward.

The Group's ability to improve profitability is critical for generating adequate cash from operations to meet its debt servicing obligations. In FY2019, VBHC recorded a one-time loss of Rs. 63 crore related to writedown of inventory and provisions for loans and advances, which resulted in high net losses.

Modest scale of operations - The VBHC Group has low ongoing portfolio, which combined with the weak gross margins, is inadequate to cover the fixed cost overheads of the Group. The Group plans to launch significant area of additional phases in existing projects apart from fresh launches. Until cash flows from the new projects ramp-up, the Group will be dependent on timely fund infusion from the promoters.

Liquidity position: Stretched

The liquidity profile of the VBHC Group is impacted by the low profitability of the budget housing projects undertaken by the VBHC Group, combined with low scale of ongoing projects and the high overheads including finance costs. Liquidity is further impacted by the slow sales velocity in the ongoing projects other than Palm Haven project in Bangalore. Consequently, the Group is highly dependent on funding support from the promoters in the form of unsecured loans.

Rating sensitivities

Positive triggers – ICRA could upgrade VBHC's rating if the Group's ongoing projects demonstrate improvement in the sales velocity with healthy build-up in customer collections. Other positive triggers include timely launch of new projects with adequate profitability metrics.

Negative triggers – Negative pressure on VBHC's rating could arise if the funds from promoters are lower than expected or there is a delay in the launch of the new projects, which are expected to be launched by end of FY2020 / early FY2021.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Parent Company: VBHC Value Homes Private Limited
Consolidation/Standalone	Consolidated financial statements of VBHC and its subsidiaries has been considered.

About the company

VBHC Mumbai Value Homes Private Limited, a subsidiary of VBHC Value Homes Private Limited is currently developing two projects at Palghar, Mumbai and Kengeri, Bangalore with a total saleable area of 6.5 lakh sq ft and 2.3 lakh sq ft respectively. The company has also completed development of 1.6 lakh sq ft in Palm Heaven project (in Kengeri) and 4.1 lakh sq ft in Palghar project.

VBHC Value Homes 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 Mumbai Value Homes Private Limited, VBHC Chennai Value Homes Private Limited VBHDC Bangalore Value Homes Private Limited, FIRSTHOUSE Budget Homes Private Limited) of the Group, except 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 five ongoing projects in Kengeri, Bhiwadi, Oragadam, Vasind and Palghar. The Group has also received equity funding from various investors including International Finance Corporation, Van Herk, Daiwa House Industry, HDFC Limited, Tano India Private Equity and Ambit Corporate Finance among others.

Key financial indicators (consolidated)

	FY2018 Audited	FY2019 Provisional
Operating Income (Rs. crore)	75.5	84.8
PAT (Rs. crore)	-33.1	-96.9
OPBDIT/OI (%)	-25.9%	-94.1%
RoCE (%)	-4.4%	-14.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.61	1.01
Total Debt/OPBDIT (times)	-8.27	-2.45
Interest Coverage (times)	-1.85	-3.66
DSCR		

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding ¹	Rating	FY2019			FY2018	FY2017	
					16-Sep-2019	12-Dec-2018	10-Dec-2018	31-May-2018	-	20-Feb-2017	04-May-2016
1	Term Loan	Long Term	90.0	65.0	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	0.0	-	-	-	-	[ICRA]BBB (Negative)	-	-	-
3	Cash Credit	Long Term	0.0	-	-	-	-	-	-	-	[ICRA]BBB (Stable)

Amount in Rs. Crore

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 [click here](#)

¹Amount outstanding as on June 2019

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	Term Loan	June 2018	NA	September 2024	90.00	[ICRA]BB+ (Stable)

Source: VBHC Mumbai Value Homes Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership ²	Consolidation Approach
VBHC Mumbai Value Homes Private Limited	100.00%	Full Consolidation
VBHC Delhi Value Homes Private Limited	99.99%	Full Consolidation
VBHC Delhi Projects Private Limited	99.99%	Full Consolidation
VBHC Chennai Value Homes Private Limited	99.99%	Full Consolidation
Ivorybrick Homes LLP	51.00%	Full Consolidation
VBHDC Bangalore Value Homes Private Limited	99.99%	Full Consolidation
FIRSTHOUSE Budget Homes Private Limited	99.99%	Full Consolidation

² Ownership as on March-2019

Analyst Contacts

Shubham Jain

+91 124 4545 306

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

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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

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