

December 08, 2023

## LJ-Victoria Properties Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	50.0	50.0	[ICRA]BB (Negative); reaffirmed
<b>Total</b>	<b>50.0</b>	<b>50.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for LJ-Victoria Properties Private Limited (LJV) factors in the signing of the Letter of Intent (LOI) with a reputed tenant, Trent Limited (part of the TATA Group), resulting in an increase in occupancy to 78% as of September 2023 from nil as of March 2023 in the Victoria Embassy property. The lease agreement with Trent Limited is expected to be signed in December 2023 and the rentals are estimated to commence from April 2025. LJV received two months of security deposits as of October 2023, and is likely to receive the remaining four months' deposit by December 2023. The debt servicing for the lease rental discounting (LRD) loans till rental commencement is supported by the security deposits from the new tenant and cash balance of Rs. 2.6 crore as of October 2023. LJV maintains a debt service reserve account (DSRA) of three months of LRD loan's EMI obligations of around Rs. 2.5 crore as on October 31, 2023, which covers around six months of debt obligations. The rating continues to note the favourable location of the property, off MG Road, in the Central Business District (CBD), Bengaluru, and the track record of the promoter group (Embassy Group) in the commercial real estate sector.

The Negative outlook factors in the significant increase in the company's indebtedness to Rs. 363 crore as of March 2023 from Rs. 176 crore as of March 2022 due to rise in corporate debt, availed towards general corporate purposes for group requirements. This has adversely impacted the overall leverage and debt coverage metrics. The corporate debt is to be serviced from support from promoters/group companies.

The rating is constrained by the high tenant concentration with Trent Limited occupying the entire 78% area leased in Victoria Embassy. Nonetheless, these risks are partly mitigated by the reputed tenant profile with presence of three years lock-in and twenty-five years lease tenure as per the LOI. Further, the company receives sub-lease rental income from a single tenant, Swiss Re, in Embassy Golf Links Business Park (EGL), which exposes it to significant vacancy risk. The debt coverage ratios remain vulnerable to any changes in interest rates and occupancy levels.

### Key rating drivers and their description

#### Credit strengths

**Favourable location of assets** – The Victoria Embassy property is in Residency Road, off MG Road, in CBD, Bengaluru. LJV also earns sub-lease income from an office block in EGL, which is located close to CBD, Bengaluru.

**LOI with Trent Limited** – Trent Limited, a part of the TATA Group, is one of the leading retail players. LJV has signed an LOI with Trent Limited resulting in an increase in occupancy to 78% as of September 2023 from nil as of March 2023 in the Victoria Embassy property. The lease agreement with Trent Limited is expected to be signed in December 2023 and the rentals are estimated to commence from April 2025. As per the LOI, LJV shall receive six months' rent as security deposit, of which security deposit of two months has been received as of October 2023. It is likely to receive the remaining four months' deposit by December 2023. The debt servicing of LRD loans till rental commencement is supported by the security deposits from the new tenant and cash balance of Rs. 2.6 crore as of October 2023.

## Credit challenges

**Significant increase in indebtedness** – The company's indebtedness has significantly increased to Rs. 363 crore as of March 2023 from Rs. 176 crore as of March 2022, due to rise in corporate debt, availed towards general corporate purposes for group requirements. This has adversely impacted the overall leverage and debt coverage metrics. The corporate debt is to be serviced from support from promoters/group companies.

**High tenant concentration risk** – LJV has high tenant concentration with Trent Limited occupying 78% of leased area in Victoria Embassy. Nonetheless, these risks are partly mitigated by the reputed tenant profile with presence of three years lock-in and twenty-five years lease tenure as per the LOI. Further, the company receives sub-lease rental income from a single tenant, Swiss Re, in EGL, which exposes it to significant vacancy risk.

**Debt coverage metrics susceptible to change in interest rates** – The debt coverage indicators are susceptible to any increase in interest rates or reduction in occupancy levels.

## Liquidity position: Stretched

LJV's liquidity profile is stretched. For the rated debt instruments, the debt servicing till rental commencement from the new tenant is supported by security deposits from the new tenant and cash balance of Rs. 2.6 crore as of October 2023. Post rental commencement, the cash flow from operations are likely to be sufficient to meet the debt repayments. The servicing of corporate debt is from the support from promoters/group companies.

## Rating sensitivities

**Positive factors** – The outlook can be revised to Stable in case of timely rental commencement from the new tenant and leasing out the pending vacant area, along with significant reduction in indebtedness resulting in improvement of debt protection metrics and liquidity position on a sustained basis.

**Negative factors** – Negative pressure on LJV's rating could arise if there is a material decline in occupancy levels or increase in indebtedness resulting in deterioration of debt protection metrics on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

LJ-Victoria Properties Private Limited (LJV), incorporated in 2008, is owned entirely by Mr. Jitendra Virwani (directly and through his holding company), who is the promoter of the Embassy Group. LJV is primarily involved in real estate development. The company has a 60% undivided interest in Victoria Embassy– a 1.01 lakh sq. ft. retail complex located off MG Road in CBD, Bengaluru. The building is located on leasehold land of 1.1 acres and was completed in 2004. It also earns revenue from sub leasing of 1.15 lakh sq. ft. of commercial office space in EGL, in Bengaluru.

## Key financial indicators

Standalone	FY2022	FY2023
	Audited	Provisional
Operating income	29.6	32.9
PAT	0.2	-36.6
OPBDIT/OI	86.6%	85.9%
PAT/OI	0.7%	-111.1%
Total outside liabilities/Tangible net worth (times)	-9.33	-5.36
Total debt/OPBDIT (times)	19.45	15.04
Interest coverage (times)	0.66	0.47

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore

Source: Company; ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Sl. No.	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Dec 08, 2023	Nov 29, 2022	July 29, 2022	April 06, 2021	April 14, 2020
1	Term loan- I	Long term	50.0	35.3	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ @
2	Term loan- II	Long term	-	-	-	-	-	[ICRA]BBB @ (Withdrawn)	[ICRA]BBB @

@ - on Rating Watch with Negative Implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Nov-2016	NA	Apr-2029	50.0	[ICRA]BB (Negative)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis - Not Applicable

## ANALYST CONTACTS

**Rajeshwar Burla**

+91 40 4547 4829

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Anupama Reddy**

+91 40 4547 4829

[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

**Abhishek Lahoti**

+91 40 4547 4829

[abhishek.lahoti@icraindia.com](mailto:abhishek.lahoti@icraindia.com)

**Riddham Agarwal**

+91 80 4332 6405

[riddham.agarwal@icraindia.com](mailto:riddham.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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