September 10, 2024

VR Konkan Private Limited: Rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	815.00	815.00	[ICRA]B+(Stable); downgraded from [ICRA]BB (Stable)
Total	**815.00**	**815.00**	

Instrument details are provided in Annexure-I

Rationale

The rating downgrade factors in the significant delay in the launch of the proposed project under VR Konkan Private Limited (VRKPL) on account of deferred approvals from the authorities for a higher floor space index (FSI). The rating is also constrained by VRKPL's exposure to high execution risk as the master plan is likely to be revised and construction is yet to commence. Any further significant delay in project commencement could adversely impact its cash flow visibility and, hence, remains a key rating monitorable. The interest on the NCD will accrue every year beginning from April 01, 2024, and it will be payable annually by May 31 of the subsequent financial year with the first payment falling due on May 31, 2025. As the payment will be made subject to surplus cash flow availability with the company, any instances of non-payment will be reviewed by ICRA as per its applicable policies.

The rating for VRKPL factors in the favourable location of the proposed mixed-use real-estate development on the Eastern Expressway Highway, which connects Thane to the eastern suburbs and Central Mumbai. The rating considers the Virtuous Retail South Asia (VRSA) Group's past track record in developing and operating retail mall assets in India. The rating further reflects the flexibility with both the non-convertible debentures (NCD) issuances having a long tenure of 25 years.

The Stable outlook reflects ICRA's expectations that VRKPL benefits from the favourable location of the proposed project enhancing the marketability post its launch.

Key rating drivers and their description

Credit strengths

Favourable location of proposed project – The project site is located on the Eastern Expressway Highway, which connects Thane to the eastern suburbs and Central Mumbai. Thane has become an upmarket residential area with good social infrastructure facilities like recreational centres, schools and colleges within approachable limits. The proposed area is also connected to major locations in the city through road and railway networks, thereby enhancing the marketability of the project post its launch.

Strong sponsor and management – VRKPL is a subsidiary of Moribus Holding Pte Limited, which in turn is 100% held by the VRSA Group. VRSA is a 23:77 joint venture (JV) between the Xander Group (through Virtuous Retail Pte Limited) and APG Asset Management, a Dutch pension fund. At present, the Group operates six retail malls in India with a total leasable area of 5.6 million sq. ft. (msf). ICRA derives comfort from the past track record of VRSA in successful construction and operation of retail malls in India. The NCDs issued are of long tenure with principal repayment at the end of 25 years.

Credit challenges

Significant delay in launch of project – There has been significant delay in the launch of the proposed project under VRKPL on account of deferred approvals from the authorities for a higher FSI. The company is also exposed to high execution risks as the master plan is likely to be revised and construction is yet to commence. Any further significant delay in project commencement could adversely impact the company's cash flow visibility and, hence, remains a key rating monitorable.

Exposure to approval and funding risks – The total project cost for the revised plan, which is likely to be higher than the earlier estimates of ~Rs. 2,500 crore for development of 4.4 msf and the funding details for the revised plan are yet to be estimated. The construction finance is expected to be availed post receipt of approvals for the revised master plan, thus exposing the entity to funding risk. However, the company intends to maintain a secured loan-to-cost ratio of 50% during the construction stage.

Liquidity position: Stretched

The liquidity position of the company is stretched, as the project is yet to be launched and the company is not expected to have adequate cash flows to support the first interest obligations on NCDs due on May 31, 2025. However, the rated NCDs have flexible terms with interest payment subject to cash flow availability.

Rating sensitivities

Positive factors – An upgrade is unlikely for rated NCDs given the characteristics of the debt instrument.

Negative factors – Pressure on the rating may arise, if there is inability to launch the project and/or achieving financial closure. Further, significant delay in start of construction may put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

VRKPL was incorporated on May 23, 2019, to set up a mall in Thane. It plans to undertake mixed development (mall, flex office, residential and service apartments) with a total area of 4.4 msf against FSI potential of 5.4 msf for retail development. In April 2022, the management changed its master plan accordingly to develop against the full FSI potential. At present, the key approvals required for construction are yet to be received and the master plan is likely to be revised post approval from the respective authorities.

Key financial indicators - Not applicable as the project is yet to be launched.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	September 10, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
NCD	Long term	815.00	[ICRA]B+ (Stable)	Sep 18, 2023	[ICRA]BB (Stable)	Sep 23, 2022	[ICRA]BB (Stable)	Jan 14, 2022	[ICRA]BB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	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
INE0BBX08013	**NCD**	Nov-2019	13%-15%	Nov-2044	651.0	[ICRA]B+ (Stable)
INE0BBX08021	**NCD**	Oct-2022	13.7%-16%	Oct-2047	115.0	[ICRA]B+ (Stable)
NA	**NCD***	NA	NA	NA	49.00	[ICRA]B+ (Stable)

*Source: Company; *yet to be placed*

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

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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

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