September 17, 2024

VR Majha Limited: Rating downgraded to [ICRA]BBB 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
Long-term Fund-based – Term loan	165.0	165.0	[ICRA]BBB; downgraded from [ICRA]BBB+ and outlook revised to Stable from Negative
Total	**165.0**	**165.0**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the rating factors in the sustained moderate occupancy of VR Majha Limited's (VRML) mall in Amritsar, which is expected to exert pressure on the estimated cash flow from operations and debt coverage metrics in the near term. The occupancy level declined to 61% as of May 2024, remaining in the range of 61-64% witnessed from March 2022 to December 2023. The near-term DSCRs for the mall are likely to remain weak in FY2025 and FY2026 given the moderate occupancy levels and high debt levels. The shortfall for debt servicing, if any, is expected to be met from the available cash and liquid investments of ~Rs. 59 crore as on March 31, 2024. Although the company has an adequate leasing pipeline, the timely ramp-up of the occupancy at adequate rental rates remains critical going forward. The rating considers high lessee concentration risk as the top ten tenants occupy 70% of the total leased area. Moreover, the rating continues to be constrained by the inherent risks associated with a single asset company, and the vulnerability of debt coverage indicators to changes in occupancy and interest rates.

The rating continues to derive strength from the mall's favourable location, its established anchor tenant base and adequate leverage metrics. The mall is located in Amritsar, adjacent to the high-end residential areas of Basant Avenue, Ranjit Enclave and Medical Enclave, which form its primary catchment area. In FY2024, the company refinanced its outstanding loan along with a top-up debt; however, its leverage (measured by external debt/NOI) was moderate at 6.8 times as of March 2024 and is estimated at 6.2 times as of March 2025. The rating draws comfort from the track record of the promoter group, VR South Asia, in developing and operating retail malls across multiple cities in India. The rated instrument has a debt service reserve account (DSRA) equivalent to three months of interest and principal payments as well as an escrow structure for the rent collections.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will benefit from the asset's favourable location, as well as the entity's adequate leverage and liquidity.

Key rating drivers and their description

Credit strengths

Favourable location with an established anchor tenant base – VR Ambarsar has been operational since October 2013 and enjoys a diverse and reputed anchor tenant base, which includes INOX, Lifestyle, Domino's Pizza, Pantaloons and others. The project site is located within the new centre of Amritsar, adjacent to the high-end residential areas of Basant Avenue, Ranjit Enclave and Medical Enclave, which forms its primary catchment area.

Adequate leverage despite an increase in debt levels in FY2024 – The company refinanced its outstanding loan along with a top-up debt in FY2024; however, the company's leverage (measured by external debt/NOI) was moderate at 6.8 times as of

March 2024 and is estimated to be 6.2 times as of March 2025. The rated instrument has a DSRA equivalent to three months of interest and principal payments as well as an escrow structure for the rent collections.

Reputed parentage lends strong operational support – VRML is a subsidiary of Moribus Holding Pte Limited, which is 100% held by Virtuous Retail South Asia (VRSA). VRSA is a 23:77 joint venture (JV) between Xander Group (through Virtuous Retail Pte Limited) and APG Asset Management, a Dutch pension fund. At present, VRSA operates six retail malls in India with a total leasable area of over 5.6 million square feet (msf). ICRA derives comfort from the track record of Virtuous Retail in the successful construction and operation of retail malls in India.

Credit challenges

Sustained moderate occupancy levels resulting in weak DSCR in near term –The occupancy level declined to 61% as of May 2024, remaining at the 61-64% range witnessed from March 2022 to December 2023. The near-term DSCRs for the mall are likely to remain weak in FY2025 and FY2026 due to the moderate occupancy levels and high debt levels. Any shortfall for debt servicing is expected to be met from the available cash and liquid investments of ~Rs. 59 crore as on March 31, 2024. Though the company has an adequate leasing pipeline, the timely ramp-up of the occupancy at adequate rental rates remains critical going forward.

High tenant concentration and single asset concentration risk – VRPL's dependence on a single asset (VR Ambarsar Mall) exposes the entity to risks arising from any adverse changes in the operational profile of the asset, as well as competition from the existing malls in the vicinity. The lessee concentration risk is high as the top ten tenants occupy close to 70% of the total leased area. The weighted average lease expiry for the existing leased area is 7.4 years. The timely renewal of leases/new lease tie-ups without rent loss will be critical from the credit perspective in case of any major vacancy.

Vulnerability of debt coverage indicators to changes in occupancy and interest rates – The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash and a bank balance of Rs. 1.9 crore and fixed deposits of Rs. 57.5 crore as of March 2024. The company has principal debt servicing obligations of ~Rs. 6.9 crore in FY2025, which can be serviced through estimated cash flow from operations and on balance sheet liquidity. The company is expected to incur ~Rs. 10 crore capex for refurbishment in FY2025-FY2026 and ~ Rs. 30 crore for the hospitality segment in the near-to-medium term, after entering into a management agreement with a suitable partner.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a healthy ramp-up in occupancy at adequate rental rates, resulting in an improvement in debt coverage metrics on a sustained basis. Specific credit metric that could lead to a rating upgrade include a five-year average DSCR greater than 1.15 times on a sustained basis.

Negative factors – Pressure on VRML's rating could arise if a material decline in occupancy or rental rates, or a significant increase in indebtedness, resulting in a weakening of the entity's debt protection metrics and liquidity on a sustained basis.

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

VR Majha Limited, erstwhile known as Alena Ventures Limited, is a special purpose vehicle (SPV) that was initially promoted by Tata Realty & Infrastructure Limited (TRIL). On December 09, 2019, private equity firm Xander Group's retail arm 'Virtuous Retail', through its 100% subsidiary, Moribus Holdings Pte. Ltd., acquired a 100% equity stake in AVL from TRIL. AVL had undertaken the development of a retail mall called TRILIUM located in Basant Nagar, Amritsar. The project had a total leasable area of ~6.5 lakh sq ft spread over eight floors of the shopping complex from the lower ground floor to sixth floor. The mall has a food court (seating capacity of 800), multiplex (6-screen facility operated by INOX currently), departmental stores, along with fashion and lifestyle (Lifestyle, Decathlon, Pantaloons, etc), retail stores (over 120 outlets), hypermarket (Big Bazaar), and entertainment zones.

Key financial indicators (audited)

VRML	FY2023	FY2024*
Operating income	37.1	36.0
PAT	-21.8	-30.7
OPBDIT/OI	57.6%	36.7%
PAT/OI	-58.8%	-85.3%
Total outside liabilities/Tangible net worth (times)	-4.9	-4.3
Total debt/OPBDIT (times)	14.8	27.9
Interest coverage (times)	0.6	0.3

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Sep 17, 2024**		**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long-term – Fund-based – Term loans	Long term	165.00	[ICRA]BBB (Stable)		Jan 18, 2024	[ICRA]BBB+ (Negative)	-	-	-	-
Non-convertible debenture	Long term	-			Jan 18, 2024	[ICRA]BBB+ (Stable)	Mar 31, 2023	[ICRA]BBB+ (Stable)	Mar 30, 2022	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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	Long-term – Fund-based – Term loans	September 2023	-	September 2038	165.0	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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.

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