March 31, 2023

VR Majha Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme (NCD)	125.00	125.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for VR Majha Limited (VRML, erstwhile known as Alena Ventures Limited) factors in the healthy leverage position of the company, which owns and operates VR Ambarsar, a retail mall in Amritsar, Punjab having a favourable location and established tenant base. Despite moderate occupancy levels, the company's external debt/net operating income (NOI) is estimated to remain at 6.0 times in FY2023, which provides healthy financial flexibility to refinance the loan. Consequently, the debt coverage metrics are comfortable with five-year average DSCR likely to remain around 1.2 times in FY2023. The rating continues to note the track record of the promoter group, VR South Asia, in developing and operating retail malls across multiple cities in India. The rated debt is supported by 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 rating is, however, constrained by the slower-than-expected ramp-up and moderate occupancy levels, which stood at 62% as of January 2023 (61% as of March 2022). Given the current leasing pipeline, the occupancy is expected to improve around 67-68% by December 2023. VRML intends to develop 1.25 lakh sq ft (out of the total 6.48 lakh sq ft) for the hospitality segment, with the remaining area to be retained for retail leasing. Successful implementation of the proposed plans can further enhance its revenue potential. Additionally, as a single asset special purpose vehicle (SPV), the company is exposed to high revenue concentration risk. The rating is also constrained by the moderate lessee concentration risk with top ten tenants occupying close to 42% of the total leasable area and contributing to around 50% of the rental income. The profitability continues to remain exposed to volatility in occupancy and interest rates.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company will benefit from the comfortable leverage and established track record of the sponsors, which would support improvement in the occupancy over the medium term.

Key rating drivers and their description

Credit strengths

Reputed parentage lends strong operational support – VRML is a subsidiary of Moribus Holding Pte Limited, which in turn is 100% held by Virtuous Retail South Asia (VRSA). VRSA is a 23:77 joint venture (JV) between Xander (through Virtuous Retail Pte Limited) and APG Asset Management, a Dutch pension fund. The Group, at present, operates six retail malls in India with a total leasable area of over 4 million square feet (mn sft). ICRA derives comfort from the track record of Virtuous Retail in successful construction and operation of retail malls in India.

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, Decathlon, etc, along with several food chains. The project site is located within the new centre of Amritsar, adjoining the high-end residential areas of Basant Avenue, Ranjit Enclave and Medical Enclave, which are the primary catchment area of the mall.

Healthy leverage position – Despite moderate occupancy levels, the company's external debt/net operating income (NOI) is estimated to remain at 6.0 times in FY2023, which provides healthy financial flexibility to refinance the loan. Consequently, the debt coverage metrics are comfortable with five-year average DSCR estimated to remain around 1.2 times in FY2023. The rated debt is supported by a DSRA equivalent to three months of interest and principal payments as well as an escrow structure for the rent collections.

Credit challenges

Moderate occupancy level – The occupancy of the mall stood moderate at 62% as of January 2023 against 61% as of March 2022. Considering the leasing pipeline, the occupancy is expected to improve to 67-68% by December 2023. The successful implementation of the proposed plan to develop an area of 1.25 lakh sq ft will further enhance its revenue potential.

Single asset SPV – The company draws its revenues from a single mall in Amritsar, Punjab. As a single asset SPV, the company is exposed to high revenue concentration risk. The profitability continues to remain exposed to volatility in occupancy and interest rates.

Moderate lessee concentration and lease renewal risk – VRML's tenant profile consists of marquee brands like INOX, Lifestyle, Domino's Pizza, Pantaloons, etc, and the profile is spread across various industries such as fashion and apparel, sports, cinema, and food chains. The lessee concentration risk is moderate as top ten tenants occupy close to 42% of the total leasable area and contribute to around 50% of the total rentals. Nonetheless, it has renewed most of the leases due in FY2023 and the recent additions/renewal in the tenants witnessed better base rents with an average increase of 10-20% for the entity.

Liquidity position: Adequate

The company has an adequate liquidity position, with unencumbered cash and bank balance of around Rs. 7.1 crore as on December 31, 2022. Further, there is a DSRA equivalent to one quarter of interest and principal repayments (Rs. 3.0 crore in form of FD as on December 31, 2022). Its cash flow from operations are estimated to be adequate to meet the debt servicing obligations on the external debt.

Rating sensitivities

Positive factors – ICRA could upgrade VRML's rating if the company demonstrates significant incremental leasing at adequate rates resulting in an improvement in leverage and coverage metrics. Specific credit metrics that could lead to a rating upgrade include five-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – Negative pressure on VRML's rating could arise if there is a material decline in occupancy or rental rates or significant increase in indebtedness, resulting in the five-year average DSCR falling below 1.15 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

VR Majha Limited, erstwhile known as Alena Ventures Limited, is an 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 100% equity stake of VRML from TRIL. The project had a total leasable area of 6.48 lakh sq ft spread over eight floors of the shopping complex from the lower ground floor to sixth floor. Around 1.25

lakh sq ft among the same has been identified for hospitality and other alternative uses. The mall has a food court (seating capacity of 800), multiplex (six-screen facility operated by INOX currently), departmental stores, along with fashion and lifestyle (Lifestyle, Decathlon, Pantaloons, etc), retails stores (over 120 outlets) and entertainment zones.

Key financial indicators (audited)

VRML	FY2021	FY2022
Operating income	24.2	27.8
PAT	-31.7	-32.5
OPBDIT/OI	46.6%	36.4%
PAT/OI	-131.1%	-116.7%
Total outside liabilities/Tangible net worth (times)	-12.5	-6.3
Total debt/OPBDIT (times)	28.6	31.3
Interest coverage (times)	0.3	0.3

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

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) As on Mar 31, 2022	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
					Mar 31, 2023	Mar 30, 2022	Mar 15, 2021	Apr 14, 2022	Jan 17, 2020	Aug 30, 2019
1	**Non-convertible debenture**	Long term	125.0	117.6	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+@	[ICRA]A&	[ICRA]A(SO) (Stable)

& watch with developing implications
@ watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	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
INE850K07065	**Non-convertible debenture**	June 2017	-	June 2029	125.0	[ICRA]BBB+ (Stable)

Source: Company

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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