March 26, 2020

Sugam Vanijya Holdings Private Limited: Long-term rating reaffirmed at [ICRA]BBB+; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	-	90.0	[ICRA]BBB+ (Stable) assigned
Non-convertible Debenture Programme	472.5	472.5	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Positive
Fund-based Term Loan	147.5	177.5	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Positive
Fund-based Working Capital Facilities- Overdraft	30.0	30.0	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Positive
Non-fund Based Working Capital Facilities	20.0	20.0	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Positive
Total	**670.0**	**790.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook takes into consideration the additional Rs. 120 crore secured debt to be availed against the rentals of VR Chennai mall, which will result in increase in leverage and marginal moderation of the debt coverage metrics. Nonetheless, a large portion of the debt is from sponsor group with favourable terms. The debt servicing (both interest and principal) of the Rs. 448-crore redeemable NCD issued to sponsors is based on the extent of availability of free cash flows. The debentures are subordinate to the secured borrowings from banks and other financial institutions. The ratio of secured borrowings to net operating income (NOI) is expected to peak at around 6.75 times during 2020 on full drawdown of additional debt. The rating action also considers the near-term impact of the COVID-19 pandemic on the cash flows of the company. Since the last rating action both the malls operated by the company have been temporarily closed till March 31, 2020, with the possibility of further extension in such shutdown as the pandemic unfolds. The closure of the malls is expected to impact the revenues and cash accruals of Sugam Vanijya Holdings Private Limited (SVHPL) over the near term; however, the rating remains supported by the company's strong liquidity, with available debt service reserve account (DSRA) equivalent to three months' debt servicing obligation and unutilized working capital lines. The revenue is exposed to volatility in occupancy caused by adverse macroeconomic conditions, which could impact tenants' business risk profiles. Moreover, any termination of leases or delay in signing of new leases will impact the cash flows. The debt coverage ratios also remain vulnerable to changes in interest and tax deduction rates.

The rating favourably factors in the healthy ramp up in leasing of VR Chennai mall within a short span. The company has leased 90% of the total leasable area in VR Chennai, thereby reducing the market risk. The tenant profile consists of prominent brands such as Spar, Lifestyle, Marks & Spencer (M&S), Hennes & Mauritz AB (H&M), PVR and Home Centre, among others. The rating continues to factor in the strong promoter profile—the company is a part of the Virtuous Retail Group, which is an established player in the Indian retail real estate market. The rating also derives comfort from the presence of SVHPL's malls in attractive catchment areas of Bengaluru and Chennai and the healthy track record of the Bengaluru mall's operations. Both the malls benefit from the presence of reputed and diversified tenant profile. ICRA also takes note of the comfortable debt coverage metrics for the secured external debt against both the malls, notwithstanding the moderation from the earlier expected levels on account of increase in secured borrowings.

Key rating drivers

Credit strengths

Reputed parentage lends strong operational support: SVHPL 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 JV between Xander (through Virtuous Retail Pte Limited) and APG Asset Management, a Dutch pension fund. The Group, at present, operates four retail malls in India with a total leasable area of over 3 mn sqft. The Group has plans to construct and acquire additional retail malls in the near to medium term. ICRA derives comfort from the track record of the Virtuous Retail in successful construction and operation of retail malls in India.

Attractive catchment area: Both the malls are conveniently located and have an attractive catchment area. While the VR Mall in Bengaluru is in Whitefield, a suburb in Bangalore with significant commercial office and residential development, VR mall in Chennai is situated in Anna Nagar, which is a prime residential area, and is easily accessible from Kilpauk, Mogappair and Nungambakkam residential areas of Chennai.

Healthy track record of operations in VR Bengaluru and ramp up in leasing in VR Chennai: VR Bengaluru has been operational for the past three years with occupancy levels above 90% in all the years; it has an established brand in the Whitefield micro-market. The company has leased 90% of the total leasable area in VR Chennai in its second year of operations. While the NOI from VR Bengaluru is expected to grow at around 5% in FY2020, its performance has been marginally weaker than expectation. VR Chennai is expected to report more than 95% growth in its NOI in FY2020 due to incremental leasing and stabilisation of rentals.

Strong and diversified tenant profile: VR Bengaluru has close to 90 tenants and VR Chennai has around 180 tenants. There is no significant concentration in terms of revenues, apart from top-three anchor tenants. The tenant profile is diversified and consists of prominent brands such as M&S, H&M, PVR, Spar, Lifestyle, Home Centre, among others.

Credit challenges

High leverage levels, however a significant portion of this is debt from sponsor group with favourable terms: The company's reported capital structure is highly leveraged due to the use of debt-like instruments for sponsor contribution. The debt servicing (of both interest and principal) of the Rs. 448-crore redeemable NCD issued to sponsors is based on the extent of availability of free cash flows. The debentures are subordinate to the secured borrowings from banks and other financial institutions. The leverage is expected to increase further with additional Rs. 120 crore debt to be availed against the rentals of VR Chennai mall. The ratio of secured borrowings to NOI is expected to peak at around 6.75 times during 2020 on full drawdown of additional debt, which results in comfortable debt coverage metrics, notwithstanding slight moderation on account of increase in debt levels.

Exposure to variation in occupancy levels: The revenue is exposed to volatility in occupancy caused by economic downturns, which could impact tenants' business risk profiles. Moreover, any termination of leases or delay in signing of new leases will impact the cash flow. The company is also exposed to intense competition due to the growing presence of foreign players and expansion by domestic players in the retail mall segment, which may impact footfalls. The company's income is also dependent on revenue share from tenants to some extent, which introduces some seasonality and volatility in the inflows.

Debt coverage metrics vulnerable to changes in interest rates or TDS deduction rates: The coverage indicators are exposed to changes in interest over the tenure of the loans. Moreover, the applicable TDS deduction rates for the rental income received can also impact the debt coverage metrics. In the near term, the company's revenues and cash flows are expected to be impacted by the shutdowns as a result of the Covid-19 pandemic.

Impact of COVID-19 pandemic - The impact of the closure of the malls on the revenues and cash accruals of the company over the near term remains to be seen, however, debt service reserve account (DSRA) equivalent to three months' debt servicing obligation and unutilized working capital lines provide comfort.

Liquidity position: Strong

The company's liquidity profile is strong, backed by comfortable debt coverage metrics, limited capital expenditure plans as well as availability of adequate bank balances and undrawn overdraft limits. All the rental receivables are routed through an escrow mechanism for servicing the secured borrowings against VR Bengaluru and VR Chennai. The DSCR on the secured borrowings is expected to be comfortably above 1.15 times over the medium term. The company had cash and cash equivalents of Rs 44 crore as on September 30, 2019. A debt service reserve account (DSRA) equivalent to three months' debt servicing obligation and unutilised overdraft facility to the extent of Rs. 40-45 crore provides liquidity cushion. While the company has unsecured borrowings from sponsor group entities, the term of the debt allows interest to be accumulated annually and paid depending on the availability of cash flows.

Rating sensitivities

Positive Triggers - Substantial growth in revenue and profitability that results in healthy cash accruals; or prepayment of debt that strengthens the overall financial profile would be the key for a higher rating. Specific credit metrics which could result in an upgrade include secured debt / NOI less than 5 times and cumulative DSCR improving to more than 1.25 times.

Negative Triggers - Downward pressure on rating could emerge if cash accruals are lower than expected, either on account of reduced occupancy or rental rates; or if any major debt-funded capital expenditure/acquisition weakens the liquidity and coverage indicators of the company. Specific credit metrics which could result in a downgrade include secured debt / NOI higher than 6.5 times or cumulative DSCR falling below 1.15 times. Moreover, impact of the recent coronavirus outbreak on operations of the malls and on SVHPL's revenue, would be critical from credit perspective.

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	The ratings are based on the standalone financial profile of the entity

About the company

Incorporated in 1987, Sugam Vanijya Holdings Private Limited (SVHPL) is involved in developing and operating commercial projects named VR Bengaluru Mall and VR Chennai Mall. The mall in Bengaluru is on the Whitefield Road, on the Dyvasandra Industrial Area, and has a leasable area of 5.98 lakh sq. ft; while the mall in Chennai is in Anna Nagar and has a leasable area of 10.08 lakh sq. ft. Both the retail malls have a hotel (The Waverly) and co-working office space (The Hive) apart from multiplexes, restaurants and other entertainment activities. The company is owned and funded by APG

Asset Management and the Xander Group through a joint venture—Virtuous Retail South Asia Pte Ltd. The company does not have any further construction activity planned.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	75.1	178.8
PAT (Rs. crore)	-46.4	-98.7
OPBDIT/OI (%)	19.7%	39.6%
RoCE (%)	0.2%	4.1%
Total Debt/TNW (times)	17.8	-45.8
Total Debt/OPBDIT (times)	83.0	19.3
Interest Coverage (times)	0.2	0.5

Source*: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar'19 (Rs. crore)	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
					Date & Rating		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					26-Mar-20	16-Mar-20	17-Dec-18	04-Sep-18		
1	Non-Convertible Debenture	Long Term	90.00	-	[ICRA]BBB+/ Stable	[ICRA]BBB+/ Positive	[ICRA]BBB+ (SO)/Stable	Provisional [ICRA]BBB+ (SO)/Stable	-	-
1	Non-Convertible Debenture	Long Term	472.50	470.93	[ICRA]BBB+/ Stable	[ICRA]BBB+/ Positive	[ICRA]BBB+ (SO)/Stable	Provisional [ICRA]BBB+ (SO)/Stable	-	-
2	Fund-based - Term Loan	Long Term	177.50	147.01	[ICRA]BBB+/ Stable	[ICRA]BBB+/ Positive	[ICRA]BBB+ (SO)/Stable	Provisional [ICRA]BBB+ (SO)/Stable	-	-
3	Fund-based - Working Capital	Long Term	30.00	-	[ICRA]BBB+/ Stable	[ICRA]BBB+/ Positive	[ICRA]BBB+ (SO)/Stable	Provisional [ICRA]BBB+ (SO)/Stable	-	-
4	Non-fund Based-Working Capital	Long Term	20.00	-	[ICRA]BBB+/ Stable	[ICRA]BBB+/ Positive	[ICRA]BBB+ (SO)/Stable	Provisional [ICRA]BBB+ (SO)/Stable	-	-

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Proposed NCD	-	-	-	90.0	[ICRA]BBB+ (Stable)
INE084S07015	NCD	FY2018	9.51%	FY2029	305.0	[ICRA]BBB+ (Stable)
INE084S07023	NCD	FY2018	9.51%	FY2029	167.5	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2018	-	FY2030	177.5	[ICRA]BBB+ (Stable)
NA	Overdraft	-	-	-	30.0	[ICRA]BBB+ (Stable)
NA	Non-fund based	-	-	-	20.0	[ICRA]BBB+ (Stable)

Source: SVHPL

Annexure-2: 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.

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