32nd Vistas Private Limited

November 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	97.96	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of 32nd Vistas Private Limited (32nd Vistas) factors in experienced promoters, healthy footfall due to favourable location, long-term lease agreements with reputable lessees, escrow arrangement for debt repayment, and maintenance of a Debt Service Reserve Account (DSRA) equivalent to ensuing three months principal and interest repayment. However, the rating remains constrained considering risk of non-renewal of lease due to majority contracts being beyond lock-in period, moderate occupancy, longer duration of loan than lease duration of reputed tenants, cash flow vulnerability to fluctuating rentals, rise in interest rates and inherent risk associated with cyclical real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- New lease agreements with new/existing tenants for available space, resulting in improvement in occupancy rate to above 75% on a sustained basis.

Negative factors

- Pre-mature termination of lease agreement with key tenants.
- Non-renewal of expiring lease contracts leading to decline in occupancy levels below 55% adversely impacting the liquidity and coverage indicators.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the company's ability to maintain its occupancy level with reputed tenants in the medium-to-long term. It is also expected that the company would ensure timely rent escalation as anticipated, leading to continued satisfactory financial risk metrics going forward.

Detailed description of key rating drivers:

Key strengths

Experienced promoters

The company was promoted by Anubhav Sharma and Mamta Sharma and have experience of ~30 years in the leasing and real estate development business. All promoters collectively look after the company's overall operations. The company is part of the 32nd Group, which has major projects planned for ~88 lakh square feet of area. This includes four leasing model projects and seven real estate projects (villas and resorts). Most of the group's projects are in Goa. The 32nd Group has presence at six locations in Goa: Vagator, Anjuna, Chorao, Chapora, Baga, and Candolim.

Favourable Location

The property is in Sector 15, Gurugram alongside National Highway bustling with heavy traffic and attracts healthy footfall. The property benefits from its distinguished location as it offers good connectivity and has easy access to public transportation. It is close to NH-8, ~2.5 km from Dwarka Expressway and 35 minutes away from IGI Airport. It is well-connected and surrounded by commercial and residential developments, making it a prime area with a strong catchment. The company and the property have strong brand recall and acts as a key landmark on the highway. The company had launched the first micro-brewery in India, the first automated bowling alley in Asia and Delhi's famed go-karting track at the 32nd Milestone.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Long-term lease tie-ups with reputed lessee

32nd Vistas has a reputed tenant profile, which includes renowned food and beverages outlets including Carnatic Café, Piano man, Greenr, The Monk, and Pastiche, among others. The company tries to rope in new brands at early stages of their life cycle to ensure longevity and ensure that no competing brands are onboarded, which may cannibalise a brand from lessor's perspective. The company has signed lease agreements for ~66% of the total leasable area. The lease tenure extends up to FY30 and escalation in rent at 5% year-on-year for its reputed lessees. However, the lock in period has expired in the case of most tenants, posing a risk to revenue visibility. This risk is mitigated by the building's favourable location, which is well-connected and has a strong catchment area.

Escrow arrangement for debt repayment and maintenance of DSRA for three months

The company has availed Lease Rental Discounting (LRD) loan of ₹98 crore from Union Bank of India, which is scheduled to be repaid in 180 structured monthly instalments ending May 2039. In line with sanctioned terms and conditions of the lender, there is an escrow account arrangement, where proceeds from 32nd Vistas are deposited and utilised per stipulated water fall mechanism towards taxes and statutory payments followed by payment of debt servicing obligations of LRD loan and then general operational expenses. Aurplus amount after being utilised for aforesaid purposes, may be utilised by the company. Moreover, per the terms of sanction, the company is required to maintain Debt Service Reserve Account (DSRA) equivalent to ensuing three months principal and interest repayment starting June 2024.

Key weaknesses

Renewability and rollover risk as loan duration longer than total lease duration

Lease agreements entered with majority tenants occupying large area would be up for renewal in FY28, while loan tenor ends in FY39, emanating rollover risk. Post the lease period, the tenant has an option to terminate the lease without charges.

The lock-in period has already expired for majority leased area. Post expiry of the lock-in period, tenants may decide to vacate the space in case sales are lower, but are, however, required to provide a notice of three months, which gives the company sufficient time to scout for new tenants. Timely renewal of these leases and scouting new tenants without rent loss will be critical from a credit perspective. Therefore, continuation of lease after expiry of minimum lease period and absence of lock in period is a key risk as renewability depends on factors including alternate choices available to tenants, prevailing rental rates and maintenance of the commercial property.
However, the company's tenants are inclined to stay in the building due to its prime location and consistent footfall. Each tenant offers a unique variety of food with distinct themes, which reduces competition among them and further encourages their retention in the property.

Moderate occupancy level

The rating also factors in moderate occupancy level. As on June 2024, the company leased out ~66.67% space in 32nd Avenue mainly to reputed tenants such as The Pianoman, TGR Grammer Room, The Monk, Carnatic, Portbelly and Burosu, among others. With moderate occupancy levels, the company is generating moderate rental income. Most leases are signed for 6-9 years with an escalation of 5% annually.

Cash flow vulnerable to fluctuation in rentals and rise in interest rates

The company's cash flow stability is subject to two key external factors: occupancy rates and interest rates. Occupancy stands at 66%, translating to moderate cash flows. However, decrease due to competition, tenant relocation, or economic downturns would directly impact cash flow. Similarly, the company's debt carries inherent interest rate risk. Rising rates would increase future EMI payments, potentially straining cash flow and affecting the debt service coverage ratio (DSCR). To mitigate these risks, maintaining high occupancy rates with favourable lease terms and long-term lock in periods is crucial.

Inherent risk associated with cyclical real estate industry

The company is exposed to cyclicality associated with the real estate sector, which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. Rental collection remains susceptible to economic downturns, which may constrain the tenant's business risk profile, and therefore, limit occupancy and rental rates. Emergence of competing facilities in the vicinity could cannibalise tenants or rental rates. While majority tenants in 32nd Avenue may continue to occupy the property, industry shocks leading to vacancies may make it difficult to find alternate lessees within the stipulated time. This could adversely impact cash flow, and hence, will be monitorable.

Liquidity: Adequate

The company is expecting lease rentals (net TDS) of ~15.53 crore for FY25 against repayment obligation (Principal+ Interest) of ₹9.42 crore. The company maintains DSRA of three months, and apart from this, liquidity is also supported by unencumbered free cash and cash equivalents which stood ₹2.83 crore as on March 31, 2024. However, loan tenor being longer than lease period of the tenants remains the key rating concern.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

- Definition of Default
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Rating methodology for Debt backed by lease rentals
- Financial Ratios – Non financial Sector
- Rating methodology for Real estate sector

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Real estate related services

32nd Vistas was incorporated in 1990 as a partnership firm with name "Apra Motels", which got converted into a private limited company in October 2023 and is engaged in real estate activities. The company is promoted by Anubhav Sharma and Mamta Sharma and have experience of ~30 years in the leasing and real estate business in association with this company.
The company has two projects: "Vagator Phase 1" and "32nd Avenue" based on leasing model and one ongoing residential development project "Chapora".

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	102.98	104.59
PBILDT	15.01	18.29
PAT	8.73	8.95
Overall gearing (times)	2.68	1.53
Interest coverage (times)	2.94	2.89

A: Audited Prov.: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial		-	-	June 2039	97.96	CARE BBB-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	97.96	CARE BBB-; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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