VR Vidarbha Limited

July 27, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	175.40	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total bank facilities	**175.40 (₹ One hundred seventy-five crore and forty lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of VR Vidarbha Limited considers the high occupancy of the VR Nagpur mall (VR Nagpur) at 88% as on April 21, 2022, indicating a high resilience amid the COVID-19 pandemic. Aided by its favourable location with no major competing malls in the city, the trading density at the mall has recovered quickly after the lifting of the lockdown restrictions; this has also helped the company earn rentals at a contracted rate. The sustenance of the trading density and higher footfalls are, in turn, expected to translate into higher revenue share (RS)-based rentals of the mall in the medium to long term, thereby supporting its debt coverage indicators. The rating also positively factors in the company being part of the VR South Asia (Virtuous Retail) which is a joint venture (JV) between The Xander Group and APG, and the ring fencing of lease rentals of the mall through an escrow mechanism supported by the creation of a debt service reserve account (DSRA).

However, these rating strengths are partially offset by the inherent lease renewal risk and the high revenue concentration from a single asset, i.e. VR Nagpur, thus exposing to competition and the risk of market downturns.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the lease rental discounting debt/earnings before interest, taxes, depreciation, and amortisation (LRD Debt/EBIDTA) to 4.0x and maintaining an occupancy level of more than 90% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the LRD debt/EBITDA to more than 6.0x or debt service coverage ratio (DSCR) to less than 1.15x due to any additional LRD loans taken against existing lease rentals or a decline in the occupancy levels.
- Moderation in the liquidity profile of the company due to lockdowns or any other measures taken by the government amid COVID-19.

Detailed description of the key rating drivers

Key rating strengths

Resilience in occupancy of the mall withstanding the COVID-19 impact, aided by location advantage: The occupancy level of VR Nagpur continues to be healthy, at 88% as on April 21, 2022 (FY21 and FY22: 93%), aided by its favourable location in a good catchment area and it offering a diversified set of retailers at a single space while also housing a reputed multiplex theatre chain. The mall is situated at Medical Chowk in Nagpur, which has excellent access by major roads, such as Ajni Road, Rambagh Road, Tukdoji Pulta Road and Great Nag Road, from all directions.

Satisfactory debt coverage indicators: Due to the lower rental collection amid COVID-19, the debt coverage indicators, viz, debt/rental, DSCR, etc, were moderated during FY21 and FY22. However, with the company reaching the pre-COVID level minimum guaranteed rental collections during Q3FY22, the debt coverage indicators are expected to be satisfactory going forward.

Part of the VR South Asia (Virtuous Retail): VR Vidarbha is a part of the VR South Asia (Virtuous Retail), a JV between The Xander Group and APG, a Dutch pension fund. The group, at present, operates six retail malls in India.

Structured payment mechanism: The servicing of debt is made out of the lease rentals being received from the VR Nagpur. For the timely servicing of debt, a structured payment mechanism through an escrow account with a prescribed waterfall mechanism is put in place. As per the same, debt servicing takes priority over operational expenses. The structure is backed by the creation of a DSRA equivalent to two quarters of debt servicing (includes both, principal and interest).

Key rating weaknesses

Inherent lease renewal risk for lease agreements: The company has entered into long-term leases with tenants, with the lease period ranging from five to 22 years. The mall is exposed to lease renewal risk post expiry of the lease period. Currently,

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

the lock-in period has expired for the majority of the tenants, and therefore, tenants may likely vacate the space in the case of sales being lower. That said, they will have to provide a notice period of three to six months, thus providing the company sufficient time to scout for new tenants. Leases for three of its anchor tenants contributing to around 23% of the leasable area are expiring in Q2FY25. However, comfort can be taken from the long-standing association of these tenants with the mall and of them operating profitably, which provides an incentive to the tenants to renew the leases. The timely renewal of these leases and the scouting of new tenants without rental loss will be critical from the credit perspective, in case of any vacancy.

High revenue concentration from a single asset: The company generates all its cash flows from a single asset – VR Nagpur, leaving it exposed to the risk of a market downturn in the area or new competing malls in that area.

Liquidity: Adequate

The company's liquidity is supported by an escrow mechanism, wherein, the rentals deposited are first utilised toward debt servicing. The company has also maintained a DSRA equivalent to two quarters of debt servicing. Also, the company had unencumbered cash and bank balances of ₹1.69 crore as of April 30, 2022. Furthermore, the low loan-to-asset value (LTV) of 36% and the relatively shorter balance tenor of loan also provides adequate headroom for the company to raise additional debt, if required.

Analytical approach: Standalone

Applicable criteria

Policy on Default Recognition
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating methodology for debt backed by lease rentals
Rating outlook and credit watch

About the company

VR Vidarbha Ltd (erstwhile Thales Ventures Limited) is a part of the VR South Asia (Virtuous Retail) and operates the VR Nagpur retail mall having a leasable area of around 3.75 lakh sq ft, in Nagpur, Maharashtra. The mall is operational since August 2019 and has an occupancy level of 88% as on April 21, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov)	June 30, 2022
TOI	26.30	29.96	NA
PBILDT	13.59	21.51	NA
PAT	-25.75	-15.03	NA
Overall gearing (times)	25.16	NM	NA
Interest coverage (times)	0.45	0.77	NA

A: Audited; Prov.: Provisional; NM: Not meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	February 28, 2030	173.40	CARE BBB+; Stable
Non-fund-based - LT-Bank guarantee	-	-	-	-	2.00	CARE BBB+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	173.40	CARE BBB+; Stable	-	-	-	-
2.	Non-fund-based - LT-Bank guarantee	LT	2.00	CARE BBB+; Stable	-	-	-	-

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Term loan	Detailed Explanation
A. Financial covenants	DSRA: Two quarters debt servicing (principal + interest)
	Security cover: 1.5x
B. Non-financial covenants	All the receivables from the tenants of the mall are to be deposited into the escrow account maintained with the lender.
	Unsecured loans, debentures, equity availed from group companies or promoters will be subservient to the bank debt and no repayment or interest payments to be done during the tenor of the loan facility with the lender.

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Non-fund-based - LT-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

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

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

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