



Press Release

Vikas Telecom Private Limited (VTPL)

September 18, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Proposed Long Term Bank Facility – Fund Based – Term Loan	652.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)
	Total	652.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The assigned rating derives strength from the experienced promoters & established brand name, locational advantages and healthy occupancy level. However, these strengths are partially offset by leveraged capital Structure and renewal risk of the existing Lease Agreements.

Key Rating Sensitivities

Upward Factor

- The Company's ability to improve the profitability along with the improvement in the capital structure.

Downward Factor

- Any Company and/or external factor leading to decline in cash flows as against projected.
- Any deterioration in the debt protection indicators from the current level.



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List of key rating drivers with detailed description

Key Rating Strengths

Experienced Promoters & established brand name:

The operations of the Company are managed by Embassy and Blackstone Group as they are jointly holding majority stake in the Company. Embassy Group is a leading real estate developer commenced its operations in 1993 and led by Mr. Jitu Virwani, Chairman and Managing Director of the group. The Group has developed over 54 Million Sq. Ft. of Commercial, Residential, Retail, Hospitality and Industrial Warehouse spaces and holds an extensive land bank across the country. The operations spans across Indian and international markets. A pioneer in leasing office space and developing integrated office parks, the group has delivered over 41 Million Sq. Ft. of commercial properties and a sizable area is under different stages of development. In 2012, Embassy Group and Blackstone entered into a joint venture to form Embassy Office Parks - an entity aimed at creating state of art office spaces. This portfolio includes Embassy Golf Links, Embassy Manyata Business Park, Embassy Tech Village and Embassy Tech Zone that houses internationally renowned corporates.

Locational advantages

Embassy Tech Village (ETV) is strategically located in the heart of Bengaluru's IT corridor adjacent to Outer Ring Road (ORR). ORR has emerged as a prominent commercial office hub of Bengaluru, on account of the premium quality of commercial office spaces and connectivity to other established micro-markets across the city. With planned development of Bengaluru metro, Brown metro line connecting Central Silk board to KR Puram along the ORR Bengaluru will act as a major demand catalyst going forward. Metro Route 2A is planned to run along ORR between Silk Board Junction and KR Puram Junction and would have 13 elevated stations. This route would further connect to multiple routes on either side connecting to the larger metro rail network for the city. One of the elevated stations for Metro Route 2A is planned to be at the entrance of ETV; which would be a significant boost to connectivity and accessibility of the Office Park. It is well connected to the Bengaluru international airport also.



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Healthy Occupancy level

At present the completed leasable space is close to 100% occupied. Some of the key Tenants at ETV are Cisco systems, Wells Fargo, JPMC, We Works, Flipkart, Swiggy, L&T Infotech, Sony, etc. For its under development Blocks 3A and 3B, ~17% of Block 3A area and the entire Block 3B has been pre-leased to reputed entities.

Key Rating Weaknesses

Leveraged Capital Structure; however characterised by adequate cash flow coverage parameters

The capital structure is leveraged marked by the negative net worth of the Company and the Company being largely depended on the external borrowings. However, the Company has projected adequate cash flow cover for its ongoing project Block 3A & Block 3B.

Renewal risk of existing Lease Agreements

The lease agreements have been entered with different parties for various tenors ranging from 10-15 years (5+5 or 5+5+5 years). However, there is an existence of lock in period ranging from 3-5 years along with escalation clause of 12-15% every 3 years. Moreover, the fit-outs are largely being done by tenants leading to high switching cost mitigating the lease renewal risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Real Estate entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

As on FY20 (Provisional), VTPL had cash and cash equivalents amounting to Rs. 252.00 Crs (Including restricted amount of ~Rs. 229.39 Crs). The Company is in the process of ceding some of its assets to Embassy REIT. The same is likely to lead to an improvement in overall capital structure.



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About the Company

Vikas Telecom Private Ltd (VTPL) is part of Bangalore based Embassy Group. VTPL was incorporated in 1992 by Garg family. Embassy and Blackstone together took 60% majority stake in the Company in 2014. At present, VTPL has existing rental generating blocks measuring to ~6.20 Million square feet and another 2.50 Million under construction including two Hilton Hotels (Excluding Block 3A & 3B) at ETV. VTPL has land area available to potentially develop up to 12.50 Million square feet of commercial office space. ETV is situated at the Outer Ring Road, Bangalore in total land parcel of around 100 acres (Owned by VTPL). Earlier, in Apr'19, Embassy and Blackstone had pooled their commercial assets to launch country's first REIT, viz. Embassy Office REIT. Embassy Tech Village is a ROFO (Right of First Offer) asset to the listed Embassy Office Parks REIT.

Financials (standalone)

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	226.59	381.53	531.36
EBITDA	175.27	278.51	465.88
PAT	-41.11	-167.88	219.90
Total Debt	2906.07	3460.82	4008.47
Tangible Net Worth	-256.98	-404.47	-392.33
Ratios			
EBITDA Margin (%)	77.35	73.00	87.68
PAT Margin (%)	-ve	-ve	36.86
Overall Gearing Ratio (x)	NM	NM	NM

*Classification as per Infomerics' standards

NM: Not Meaningful

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.



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Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Proposed Fund Based facility – Term Loan	Long Term	652.00	IVR BBB/ Stable Outlook	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Fund Based facility – Term Loan	--	--	--	652.00	IVR BBB/ Stable Outlook