Rating Rationale

March 24, 2020 | Mumbai

CSJ Infrastructure Private Limited

Rating placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	**Rs.1299 Crore**
Long Term Rating	**CRISIL A- (Placed on 'Rating Watch with Negative Implication')**

Rs.82.3 Crore Non Convertible Debentures	**CRISIL A- (Placed on 'Rating Watch with Negative Implication')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its rating on the long term bank loan facilities and NCDs of CSJ Infrastructure Pvt Ltd (CSJ Infra; a part of Nexus Malls [Blackstone's India retail platform]) on **'Rating Watch with Negative Implications.'**

The rating action follows measures taken by various state governments towards containment of COVID-19 which includes temporary closure of non-critical establishments, inter-state transportation etc. along-with advisory against travel and visiting areas of mass gatherings. These measures are likely to impact the business profile of CSJ Infra as mandatory closure of the mall will heighten uncertainty in the collection of lease rentals from tenants, who may delay or defer payment of rent. This may have an impact on the company's credit quality, especially liquidity position.

While, most of the state government's measures are applicable till March 31, 2020, revocation of the measures will be contingent upon directive from the central government and extent of spread of COVID-19. A sustained long period of closures can result in significant deterioration in credit profiles of firms. On the other hand, a faster reversal to normalcy may contain the extent of deterioration likely in credit quality of firms. That said, the ability of the business to revert back to operational stability and any relief measures given by the government will be key rating sensitivity factors, and CRISIL will continue monitoring these events.

CSJ Infra maintains debt service reserve accounts (DSRA) covering 3 months of debt servicing obligations and had cash and cash equivalents of around Rs 70 crore (including DSRA) as on September 30, 2019. Additionally, Nexus has access to funds at Blackstone Asia level which can be drawn down if required.

The rating continues to reflect CSJ Infra's stable cash flow from lease rentals supported by healthy mall occupancy, diverse and reputed clientele, and moderate debt protection metrics. These strengths are partially offset by volatile interest rates and occupancy levels.

Analytical Approach

For arriving at the rating, CRISIL has considered the standalone business and financial risk profiles of CSJ Infra. The company owns and operates the Elante mall, Elante office complex, and the Hyatt Regency hotel in Chandigarh and has no financial linkages with any other companies of the Nexus Malls group.

CRISIL has not factored cash flow from the Hyatt Regency hotel from fiscal 2021 as it is proposed to be hived off to a separate special purpose vehicle along with debt of around Rs 80 crore.

Key Rating Drivers & Detailed Description

Strengths

*** Stable cash flow from lease rentals and a diverse clientele**

The Elante mall has a leasable area of 11.5 lakh square feet (sq ft), which is almost fully occupied while the office complex has an occupancy of about 55%. The mall's scale and attractive catchment area resulted in a healthy mix of anchors, vanilla and food and beverage tenants. Tenant concentration is moderate with top 10 tenants occupying around 40% area and contributing to 27% of minimum guaranteed rentals. The rating also factors in the well-secured lease structure, with a lock-in and weighted average lease expiry of 6.1 years for the top 10 tenants, and an in-built revenue escalation clauses for most tenants. Furthermore, a portion of the total rental is generated through revenue share income.

The mall is expected to derive significant operational synergies from the Nexus Malls group, which has extensive experience in mall management and a sizeable portfolio of retail properties in India. Though about 53% of the leases are expected to come up for renewal over the next three years, the mall is expected to benefit from the management's proactive approach towards mall maintenance, ensuring tenant retention and asset quality in line with its global portfolio. The company has also been able to successfully renew and enter into new agreements with tenants for around 12% of the total leasable area over the 20 months through January 2020, with these agreements being entered into at about 30% higher value, as compared to the average rental rate. However, the ability of the entity to continue the same will be closely monitored.

*** Moderate debt protection metrics**
The loan was refinanced in January 2020 with a lower interest rate and debt service coverage ratio (DSCR) is expected to remain moderate over the tenure of the debt, supported by steady cash flow from rentals and ballooning debt repayment structure. The loan has a put option at the end of 60 months from disbursement. CSJ Infra is expected to benefit from the promoter group's track record of successfully refinancing loans/renegotiating terms of debt for their other entities, should the option be exercised. Furthermore, the company is expected to have a comfortable loan-to-value ratio of around 40%, further mitigating refinancing risk. Nevertheless, any significant increase in debt will weaken the debt protection metrics and remain a key rating sensitivity factor.

Weaknesses
*** Exposure to volatile occupancy and interest rates**
Rental collection, the main source of revenue, is exposed to volatility because of economic downturns, thereby impacting the tenant's business risk profile and, hence, occupancy and rental rates. Emergence of any competing mall, while unlikely, can also redirect footfalls from Elante. Furthermore, the floating interest rate on debt exposes the company to interest rate risk. Although cash flow will be able to absorb the impact of fluctuations in occupancy and interest rate to some extent, it remains a rating sensitivity factor.

<u>Liquidity Strong</u>
DSCR is expected to remain more than 1.2 times over the tenure of debt. Cash accrual is expected to be sufficient to service debt repayment of Rs 83 crore during the two fiscals through 2022. Liquidity is also supported by maintenance of a debt service reserve account equivalent to three months of debt servicing obligation. The loan has a put option at the end of 60 months from disbursement, which along with the healthy loan-to-value ratio of around 40% and experience of the promoter group in refinancing should provide support.

<u>Rating Sensitivity Factors</u>
Upward factors
*Substantial growth in rental income by over 10% per annum year-on-year, while maintaining costs, thereby strengthening surplus generation and debt protection metrics
*Significant reduction in debt level through prepayment

Downward factors
*Mall shut-down extends beyond April 30, 2020
*Weakening of debt protection metrics due to cancellation of lease agreements contributing to more than 10% of the leased area or delay in leasing of commercial space
*Drawdown of additional debt.

About the Company
CSJ Infra is a 100% subsidiary of Nexus Malls. It owns and operates the Elante mall, the Elante office complex, and the Hyatt Regency hotel in Chandigarh. The mall has leasable area of 11.5 lakh sq ft and has been operational since 2014. It has a well-diversified clientele and had healthy occupancy of 99% as of August 2018. The office complex has a total area of 4.24 lakh sq ft, of which 2.99 lakh sq ft has been sold, while about 55% of the remaining space was leased as of January 2020.

Hyatt Regency is a premium luxury hotel with 211 rooms, including 25 suites. The hotel also has four restaurants and a banquet space of 36,000 sq ft, apart from other services such as spa, gym, salon, business club, and an outdoor swimming pool. It is favourably located in Chandigarh and is right next to the Elante mall. Operations commenced in April 2016.

DRPL has amalgamated with CSJ Infra after the National Company Law Tribunal order on November 29, 2018, and the effective date of the amalgamation is August 1, 2017.

<u>Key Financial Indicators</u> - Standalone

As on/for the period ended March 31,	Unit	2019	2018
Operating income	Rs crore	315	294
Profit after tax (PAT)	Rs crore	12	-69
PAT margin	%	3.8	-23.5
Adjusted debt/adjusted networth	Times	1.57	10.84
Interest coverage	Times	1.52	0.75

<u>Any other information:</u> Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
INE116K07012	Non-convertible debentures*	17-Jul-2017	8.85%	16-Jul-2029	82.3^	CRISIL A-/Watch Negative
NA	Lease rental discounting loan	NA	NA	31-Jan-2032	1299.0	CRISIL A-/Watch Negative

^Refers to outstanding amount as of July 31, 2018; the total issue size is Rs 85 crore

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	82.30 24-03-20	CRISIL A-/(Watch) Negative	21-02-20	CRISIL A-/Stable	22-04-19	CRISIL A-/Stable		--		--	--
Fund-based Bank Facilities	LT/ST	1300.00	CRISIL A-/(Watch) Negative	21-02-20	CRISIL A-/Stable	22-04-19	CRISIL A-/Stable	08-11-18	CRISIL A-/Stable		--	--
								02-11-18	CRISIL A-/Stable			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Lease Rental Discounting Loan	**1299**	**CRISIL A-/Watch Negative**	**Lease Rental Discounting Loan**	**1299**	**CRISIL A-/Stable**
--	**0**	**--**	**Lease Rental Discounting Loan**	**1331.33**	**Withdrawn**
Total	**1299**	**--**	**Total**	**2630.33**	**--**

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties
CRISILs Bank Loan Ratings

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