

October 04, 2022

Sparkle One Mall Developers Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	400.00	[ICRA]A- (Stable); rating assigned
Total	400.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating favourably factors in the synergies derived by Sparkle One Mall Developers Private Limited's (SOMDPL) being part of Phoenix Mills group, which is one of the India's largest Retail mMall Company encompassing ~70 lakh sft of area (with an additional 52 lakhs sft of under-construction retail space and 34 lakh sft of office spaces) with strong brand strength and operational track record of over three decades. SOMDPL is a subsidiary of Island Star Mall Developers Private Limited (ISML), which is a 51:49 joint venture (JV) of Phoenix Mills Limited (PML) and Canada Pension Plan Investment Board (CPPIB). The rating notes the attractive location of the mall, named Mall of Asia, Bengaluru, as reflected in the healthy pre-leasing levels of 76% as of June 2022. The rating derives comfort from the low leverage with debt to equity mix of 30%:70% (including the planned office space development). Even at the current pre-leasing level, the peak debt to NOI looks comfortable. The mall project is exposed to low funding risk as the entire debt has been tied up and 100% of the committed promoter contribution has already been infused by ISMDPL as of June 2022. ICRA expects ISMDPL to extend extraordinary support to SOMDPL, given the strong business linkages, strategic importance and the sponsor's reputation sensitivity to default.

The rating, is however, constrained by the residual execution risk as ~26% of the total project cost for the mall is yet to be incurred as on June 30, 2022. However, adequate buffer is available against the scheduled DCCO (December 2024), which mitigates the risk to an extent. The project also includes office space with a leasable area of ~1.2 million sft. The construction for the office project is in the initial stages and ICRA expects the same to be funded by equity and top-up (of Rs. 200 crore) of LRD debt against the retail mall. The office project, once operational, will further strengthen the NOI. However, delay in lease tie-ups or construction progress for the office space is unlikely to exert any pressure on its debt protection metrics at the current borrowing levels. Any increase in the expected debt levels for the office space will be a key rating consideration. Further, SOMDPL is exposed to geographical and asset concentration risks, which are inherent in companies with single projects. ICRA notes the vulnerability of its revenues to external factors caused by adverse macroeconomic and external conditions such as Covid-19 pandemic, which could impact the tenants' business risk profiles.

The outlook on the rating is Stable, supported by ICRA's expectation of timely commencement of project with healthy occupancy, low leverage levels and synergies from PML Group.

Key rating drivers and their description

Credit strengths

SOMDPL derives synergies being a part of the PML Group, which has a strong operational track record and brand, strength in real estate sector- SOMDPL is a subsidiary of ISMDPL, which is a 51:49 JV of PML and Canada Pension Plan Investment Board (CPPIB). ISMDPL operates Phoenix Market City, Bangalore, with a total leasable area of 10 lakh sft, operational since 2010. The PML Group is one of the largest retail mall companies encompassing ~70 lakh sft of area (with an additional 52 lakhs sft of under-construction retail space and 34 lakh sft of office spaces), with strong brand strength and operational track record of

over three decades. The Group has established brands in the retail real estate sector, such as High Street Phoenix, Phoenix Market City and Palladium. ICRA expects ISMDPL to extend extraordinary support to SOMDPL, given the strong business linkages, strategic importance and the sponsor's reputation sensitivity to default.

Location-specific advantage and good connectivity – SOMDPL will develop retail and office spaces with gross leasable area of 1.2 million sft each in Mall of Asia, Bengaluru. The location has good connectivity to key city areas and has an attractive catchment area due to the presence of many residential and commercial developments.

Low leverage and limited funding risk; healthy progress in pre-leasing – The leverage is low with debt:equity of 30%:70% (including the planned office space development). Even at the current pre-leasing level, the peak debt to NOI looks comfortable. The mall project is exposed to low funding risk as the entire debt has been tied up and 100% of the committed promoter contribution has already been infused by ISMDPL as on June 2022. The office project, once operational, will further strengthen the NOI. A delay in lease tie-ups or construction progress for office space is unlikely to exert any pressure on its debt protection metrics at the current borrowing levels. Any increase in the expected debt levels for the office space will be a key rating consideration. Moreover, all the approvals required to start construction have been received. The retail mall has seen healthy pre-leasing of 76% as on June 2022.

Credit challenges

Exposure to residual execution risk – The project remains exposed to residual execution risk as ~26% of the total project cost is yet to be incurred as on June, 2022. However, adequate buffer is available against the scheduled DCCO (December 2024), which mitigates the risk to an extent.

Geographical and asset concentration risks – As SOMDPL is a single project special purpose vehicle (SPV), it is exposed to geographical and asset concentration risks, which are inherent in companies with single projects.

Vulnerability to external factors – SOMDPL's revenues are exposed to adverse macroeconomic and external conditions such as Covid-19 pandemic, which could impact the tenants' business risk profiles.

Liquidity position: Adequate

As on March 31, 2022, the mall project had Rs. 400 crore of sanctioned term loan for the construction of the mall compared to the pending cost of Rs. 417.4 crore. In addition, the company had unencumbered bank balances and liquid investments of over Rs. 30 crore as on March 31, 2022. The construction for the office project is in the initial stages and ICRA expects the same to be funded by equity and top-up (of Rs. 200 crore) of LRD debt against the retail mall.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings on stabilisation of the operations of the mall with high occupancy levels resulting in sustained improvement in leverage metrics while maintaining healthy coverage metrics. Any improvement in the credit profile of parent entity, ISMDPL, could also lead to a positive rating action

Negative factors – Negative pressure on the ratings could emerge if there is sustained pressure in occupancy or rent rates along with significant increase in indebtedness resulting in weakening of leverage and coverage metrics on a sustained basis. Specific credit metric that could lead to a downgrade is Debt/NOI greater than 6.5 times on a sustained basis. Any weakening of the credit profile of parent entity, ISMDPL, could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt backed by Lease Rentals Impact of Parent or Group support on an Issuer's Credit Rating
Parent/Group support	Parent Company: Island Star Mall Developers Private Limited (ISMDPL) The rating factors in the expected financial support from ISMDPL to SOMDPL to protect its reputation from the consequences of a subsidiary's distress.
Consolidation/Standalone	Standalone

About the company

Sparkle One Mall Developers Pvt Ltd is a subsidiary of ISMDPL, which is a 51:49 subsidiary of PML and CPPIB. At present, the company is currently developing a retail mall in Bangalore, Phoenix Mall of Asia, at a gross leasable area of 1.2 million sft each in the retail space and office segment. The total cost for the mall is Rs. 1569.3 crore and it has a scheduled commercial operation date of December 2024. The cost of the office is around Rs. 400 crore and is expected to commence in Q4 FY2026.

Key financial indicators:

Not applicable being a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1	Term loans	Long-term	400.0	0.0	[ICRA]A-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2022	NA	FY2034	400.0	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis : Not Applicable

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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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