01 February, 2021

Lulu India Shopping Mall Private Limited (formerly Lulu Lucknow Shopping Mall Private Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	945.00	945.00	[ICRA]BBB (Stable); reaffirmed
Total	**945.00**	**945.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Lulu India Shopping Mall Private Limited's (LISMPL/ the company) strong parentage, being a part of Lulu Group, which has vast experience in hospitality, retail and commercial real estate sectors. The rating takes comfort from the favourable project location of the shopping mall, located within Sushant Golf City on the Lucknow-Sultanpur National Highway. The total project cost of Rs. 1,350.0 crore is proposed to be funded by promoter contribution of Rs. 405.0 crore and debt funding of Rs. 945.0 crore (D/E of 70:30). Till October 5, 2020, the company had incurred Rs. 1109.7 crore, which translates to 82.2% of the total cost, funded through promoter contribution of Rs. 357.5 crore (including Rs. 195 crore contributed by loan against fixed deposits of promoters[1] which is treated as promoter contribution by the lenders), debt of Rs. 746.9 crore and customer advances of Rs. 5.3 crore.

The rating is, however, constrained by the residual execution risk with 17.8% of pending construction as on October 5, 2020; however, comfort can be drawn from the vast experience of the Group in executing large real estate and hospitality projects. The mall is expected to commence operations by September 2021 instead of September 2020 planned earlier because of Covid-19 pandemic related delays. Further, the interest during construction (IDC) overrun of Rs. 50-55 crore is expected to be absorbed under contingency and other project expenditure heads. Notwithstanding the success of Lulu Kochi and the good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls in the Lucknow market, generate similar response for own stores, and command premium rentals from non-Lulu stores remains to be seen. However, ICRA notes that 70% of the area earmarked for external tenants (2.96 lakh sqft. out of 4.22 lakh sqft. of leasable area), apart from ~3.44 lakh sqft. of area to be occupied by Lulu's own retail outlets, has been tied-up, thereby mitigating the market risk to some extent. Lulu's own retail outlets, namely Lulu Hypermarket, Lulu Connect, Lulu Celebrate, and Lulu Sparkys, are expected to account for 85-90% of LISMPL's revenues once the mall gets operational. LISMPL is expected to face high competition from existing and upcoming malls in the city. However, the high patronage enjoyed by Lulu's own retail outlets and current tie-ups with established brands is expected to attract footfalls to the mall. Moreover, the projected DSCR is weak during the initial years of operations; however, liquidity cushion in terms of LABOD, provision of debt service reserve account (DSRA) reserve of three months of principal and interest obligation, and resourceful promoters provide comfort. ICRA notes that the company has requested the lender for extension of the moratorium period by one year because of the shift in commercial operation date by 12 months which is in final stages of approval.

[1] Rs. 980 crore of loan against banks own deposits (LABOD) is available for various Lulu malls which are under construction.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being part of Lulu Group – LISMPL is a part of the Lulu Group, headquartered in Abu Dhabi, with operations spread over three continents and vast experience in retail, commercial real estate and hospitality sectors.

Favourable project location – The project is located within the Sushant Golf City, a residential township on the Lucknow-Sultanpur National Highway, with a good catchment area.

Sanction of LABOD facility to part fund promoter contribution – The total project cost of Rs. 1,350.0 crore is proposed to be funded by promoter contribution of Rs. 405.0 crore and debt funding of Rs. 945.0 crore (D/E of 70:30). Till October 5, 2020, the company had incurred Rs. 1109.7 crore, which translates to 82.2% of the total cost, funded through promoter contribution of Rs. 357.5 crore (including Rs. 195 crore contributed by loan against fixed deposits of promoters which is treated as promoter contribution by the lenders), debt of Rs. 746.9 crore and customer advances of Rs. 5.3 crore.

Credit challenges

Residual execution and market risk– LISMPL is exposed to residual execution risk with 17.8% of pending construction. However, comfort can be drawn from the Group's vast experience in executing large real estate and hospitality projects. The mall is expected to commence operations by September 2021, instead of September 2020 planned earlier, because of the Covid-19 pandemic related delays. Further, the interest during construction (IDC) overrun of Rs. 50-55 crore is expected to be absorbed under contingency and other project expenditure heads. Notwithstanding the success of Lulu Kochi with good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls in the Lucknow market, generate similar response for its own stores and command premium rentals for non-Lulu stores remains to be seen. However, ICRA notes that 70% of the area earmarked for external tenants (2.96 lakh sqft. out of 4.22 lakh sqft. of leasable area), apart from ~3.44 lakh sqft. of area to be occupied by Lulu's own retail outlets has been tied-up, thereby mitigating market risk to an extent. Its own retail outlets namely - Lulu Hypermarket, Lulu Connect, Lulu Celebrate, and Lulu Sparkys are likely to account for 85-90% of LISMPL's revenues once the mall gets operational.

Weak DSCR during initial years of operation – The projected DSCR is weak during the initial years of its operations. However, liquidity cushion in terms of LABOD, provision of DSRA reserve of three months of principal and interest obligation and resourceful promoters provide comfort. Further, the company has requested the lender for extension of moratorium period by one year on account of shift in commercial operations date by 12 months which is in final stages of approval.

Competition from existing and upcoming retail malls– LISMPL is expected to face high competition from existing and upcoming malls in the city. However, the high patronage enjoyed by Lulu's own retail outlets and current tie-ups with established brands is expected to attract footfalls to the mall.

Liquidity position: Adequate

The company's liquidity is adequate with DSRA of Rs. 13.8 crore as on January 5, 2021. The pending project cost of Rs. 240.3 crore as on October 5, 2020 is expected to be funded by way of debt to the extent of Rs. 198.1 crore and the rest from promoter's contribution. During the initial years, the cash flow from operations may not be sufficient to meet the debt repayment obligation. However, the presence of LABOD facility, DSRA of three months of principal and interest obligation and resourceful promoters provide comfort.

Rating sensitivities

Positive factors – Better-than-expected occupancy and lease rentals, and performance of Lulu retail stores post COD. Specific credit metrics that could lead to an upgrade of LISMPL's rating include average DSCR for first three years greater than 1.1 times.

Negative factors – Negative pressure on the rating could arise in case of further delay in execution of the project leading to cost overruns and/or lower than anticipated occupancy/ lease rentals or performance of Lulu retail stores. Further, any delay or lower than anticipated support from the promoters would also be a credit negative. Moreover, failure to get an approval of extension of moratorium from the lender on project debt would be credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry Rating Methodology for debt backed by lease rentals Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Group Company: Lulu Group The rating factors in the likelihood of LISMPL's promoters extending financial support out of the need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Promoted by the Lulu group, LISMPL was incorporated in May 2016 for setting up a shopping mall in Lucknow, Uttar Pradesh. Measuring a total of 19.5 lakh sqft, the mall would consist 7.66 lakh sqft of leasable area and 5.61 lakh sqft of parking area. Mr. Yusuff Ali M.A and his family members have full ownership of the company. The company has purchased 10.65 acres of land inside Sushant Golf City, which is a residential township surrounding an International golf course and adjacent to Lucknow IT City. Lulu's own retail outlets (hypermarket, Celebrate, Sparkys) are expected to occupy 3.44 lakh sqft and will be the major anchor stores for the mall; the remaining 4.22 lakh sqft will be let out on lease. The total project cost is estimated at Rs. 1,350.0 crore, which is proposed to be financed by a term loan of Rs. 945.0 crore and promoter's contribution of Rs. 405.0 crore. The project is expected to be completed by September 2021. As on October 5, 2020, the company had incurred Rs. 1109.7 crore (translating to ~82.2% of total project cost), which is funded through promoter's contribution of Rs. 357.5 crore, debt of Rs. 746.9 crore and customer advances of Rs. 5.3 crore.

Key financial indicators (audited)

Not applicable since LISMPL is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 5, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 1, 2021	Jan 17, 2020	Nov 23, 2018	Aug 11, 2017
1	Term Loans	Long-term	945.0	746.92	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Oct 2017	9.4%	FY2031	945.00	[ICRA]BBB (Stable)

Source: *LISMPL*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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