

November 17, 2022

Island Star 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	245.00	[ICRA]A+ (Stable); assigned
Total	245.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the rating of Island Star Mall Developers Private Limited (ISMDPL), which is a 51:49 joint venture (JV) of Phoenix Mills Limited (PML) and Canada Pension Plan Investment Board (CPPIB), ICRA has consolidated the business and financial risk profiles of all the assets under the PML-CPPIB platform as they are in the same line of business with common promoters, have financial linkages and the assets are expected to have cash flow fungibility among themselves.

The assigned rating favourably factors in the synergies derived by Island Star Mall Developers Private Limited (ISMDPL) being a part of the Phoenix Mills Group, which is one of India's largest Retail Mall developer encompassing ~70 lakh square feet (sft) of area (with an additional 55.7 lakh sft of under-construction retail space and 34 lakh sft of office space) with strong brand strength and operational track record of over three decades. The rating notes the favourable location of Phoenix Market City, Bangalore and strong track record of the mall with healthy occupancy at 97% as of June 2022, resulting in a stable rental income for the company. The mall has a strong tenant base including PVR Cinemas, Lifestyle, Zara, Reliance Digital etc. The rating considers the healthy pre-leasing status across the three under-construction malls, Phoenix Citadel Indore, Phoenix Millennium, Pune and Phoenix Mall of Asia, Bangalore where pre-leasing stood at 88%, 86% and 78% respectively as on Sep 30, 2022. The rating also considers the strong financial risk profile of the PML-CPPIB platform characterised by low leverage and strong cash balances with debt:equity of mix of 30%:70% for assets under construction. The external debt/NOI is estimated to be comfortable in the range of 5 – 5.5 times during the next two years. Post the stabilisation of the under-construction assets, the external debt/NOI is estimated to be lower than 4 times. The debt coverage metrics of the platform is healthy as reflected by DSCR of 1.9 times in FY2022 and is expected to remain above 2.0 times in the medium term.

The rating, is however, constrained by the portfolio characteristics which is currently dominated by under construction assets, wherein ~10% of the overall area in the portfolio (including under construction projects) is revenue generating in nature as of June 2022. ISMDPL is exposed to residual execution and market risks for the under-construction portfolio. While the under-construction assets are at different stages of construction, the projects are exposed to inherent execution risk and risk related to ramp-up and stabilisation of new assets. Given that the project's leverage is low, even at the current pre-leasing levels in the under-construction assets, the company is comfortably placed in terms of debt servicing. The PML Group has a strong track record in developing, leasing and managing the retail assets. Further, the rating factors in the moderate lessee concentration and lease renewal risk as top five tenants occupy close to 26% of the total leasable area and around 13% of the leasable area are due for lease expiry in FY2023. Also, 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 projects with strong pre-leasing, low leverage levels and synergies from the PML Group.

Key rating drivers and their description

Credit strengths

ISMDPL derives synergies as a part of the PML Group, which has a strong operational track record and brand, strength in real estate sector - ISMDPL is a 51:49 JV of PML and Canada Pension Plan Investment Board (CPPIB) and 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 developer encompassing ~70 lakh sft of area (with an additional 55.7 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 Phoenix Palladium, Phoenix Market City and Phoenix United.

Operational portfolio backed by healthy occupancy and established tenant base – Operational since 2010 with a leasable area of 10 lakh sft and located in the favourable location of Phoenix Market City, Bangalore, the occupancy of the mall stood healthy at 97% as of June 2022, resulting in stable rental income. Further, the rental income and NOI in Q1FY2023 surpassed pre-pandemic levels and stood at 128% and 122% of pre-pandemic levels (Q1FY2020) respectively. The mall has a diverse and reputed anchor tenant base including PVR Cinemas, Lifestyle, Reliance Digital etc. Further, the three under-construction malls, Phoenix Citadel, Phoenix Millenium, Pune and Phoenix Mall of Asia, Bangalore have healthy pre-leasing of 88%,86% and 78% respectively as on September 30, 2022

Strong financial risk profile –The platform's leverage is low with external debt/NOI of 3.7 times as on March 31, 2022. While the platform is under taking capex, it is funded with low leverage with debt:equity of mix of 30%:70%. The external debt/NOI is estimated to be comfortable in the range of 5 – 5.5 times over the next two years. Post the stabilisation of the under-construction assets, the external debt/NOI is estimated to be lower than 4 times. Further, ISMDPL has a healthy debt coverage metrics as reflected by DSCR of 1.9 times in FY2022 and is expected to remain comfortable in the medium term.

Credit challenges

Exposure to execution risk – At present, the PML-CPPIB platform is dominated by under construction assets, wherein ~10% of the overall area in the total portfolio (including under-construction projects) is revenue generating in nature as on June 2022. ISMDPL is exposed to residual execution and market risks for the under-construction portfolio. While the construction progress across Phoenix Millenium (Pune), Mall of Asia (Bengaluru) and Phoenix Citadel (Indore) is around 71%, 78% and 83% respectively as on September 2022, the construction is in initial stage for the expansion plan in PMC Bangalore, PMC Kolkata and Project Rise in Mumbai. While the under-construction assets are at different stage of construction, the projects are exposed to inherent execution risk and risk related to ramp-up and stabilisation of new assets. Given that the project leverage is low, even at the current pre-leasing levels in the under-construction assets, the company is comfortably placed in terms of debt servicing. Further, this risk is mitigated to some extent as the PML group has a strong track record in developing, leasing and managing retail assets.

Moderate lessee concentration and lease renewal risk – The lessee concentration risk is moderate as top five tenants occupy close to 26% of the total leasable area. The tenants occupying close to 13% of the leasable area are due for lease expiry in FY2023. Timely renewals with implementation of rental escalations will be a critical factor for maintaining a comfortable debt coverage metrics.

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

Liquidity position: Adequate

The company's liquidity position is adequate with unencumbered bank balances and liquid investments of over Rs. 800 crore as on March 31, 2022 and around Rs. 910 crore at the platform level. It has repayment of Rs. 16 crore in FY2023 and Rs. 24 crore in FY2024 which can be met through its cash flow from operations. At present, the PML-CPPIB platform is currently

undertaking capex plans with an estimated cost of Rs. 6,800 – 7,000 crore during FY2023 - FY2027 which is to be funded by a debt: equity mix of 30%:70%. Further, more than 65% of the debt has been tied up and around 90% of the total equity is in place as of September 2022.

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.

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. Also, delay in stabilisation of operations of the under-construction assets could lead to negative pressure on ratings. Specific credit metric that could lead to a downgrade is Debt/NOI greater than 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt backed by Lease Rentals Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating of Island Star Mall Developers Private Limited (ISMDPL), ICRA has consolidated the business and financial risk profiles of all the SPVs under PML-CPPIB platform as they are in the same line of business with common promoters, have financial linkages and expected fungibility amongst themselves

About the company

Besides its owned assets, the Phoenix Mills Group (PML) has entered into agreements with investment majors such as Canadian Pension Plan Investment Board and GIC Private Ltd. to develop retail-led mixed use properties. At present, the PML-CPPIB platform has one operational asset, PMC Bangalore under Island Star Mall Developers Private Limited (ISMDPL) and five under-construction assets, in Indore, Pune, Bangalore, Kolkata and Mumbai which are being built across Insight Mall Developers Pvt Ltd, Alyssum Developers Pvt Ltd, Sparkle One Mall Developers Pvt Ltd, Mindstone Mall Developers Pvt Ltd and Plutocrat Commercial Real Estate Private Limited respectively

ISMDPL is a 51:49 subsidiary of PML and Canada Pension Plan Investment Board (CPPIB). ISML owns and operates the Phoenix Market City Mall in Whitefield, Bengaluru which has a total leasable area of ~1.0 million sft and has been operational since 2010. ISMDPL has three under-construction assets namely Phoenix Citadel, Indore, Phoenix Mall of Asia, Bangalore and Phoenix Millenium, Pune in its subsidiaries, Insight Mall Developers Pvt Ltd, Sparkle One Mall Developers Pvt Ltd and Alyssum Developers Pvt Ltd respectively. Further, all the three assets have healthy pre-leasing occupancy levels. In addition, CPPIB has also partnered PML in two more assets in FY2022 – PMC Kolkata in Mindstone Mall Developers Private Limited (MMDPL) and Project Rise, offices at Lower Parel Mumbai in Plutocrat Commercial Real Estate Private Limited (PCREPL). While the shareholding in MMDPL and PCREPL stood at 25% and 35.9% respectively, as on March 2022, CPPIB is expected to increase the shareholding to 49% and the remaining will be held by PML.

Key financial indicators (audited)

ISMDPL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	118.8	175.9
PAT (Rs. crore)	20.8	83.4
OPBDIT/OI (%)	61.1%	62.9%
PAT/OI (%)	17.5%	47.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	4.6	3.9
Interest coverage (times)	2.4	55.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023 Nov 17, 2022	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
1	Term loans	Long-term	245.0	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	FY2023	NA	FY2032	245.0	[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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