January 02, 2024

Island Star Mall Developers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	245.0	245.0	[ICRA]A+ (Stable); reaffirmed
Total	**245.0**	**245.0**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating of Island Star Mall Developers Private Limited (ISMDPL) 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 with cash flow fungibility. The platform has a total of six assets with a gross leasable area (retail and office) of 10.55 million square feet (msf). Of this, 4.35 msf is operational (entirely retail) and the remaining 6.2 msf is under-construction as of November 2023.

The rating reaffirmation factors in the improvement in the operational portfolio of the platform, wherein the share of completed assets stood at 41% of the total leasable area as of November 2023 from 10% as of June 2022 resulting in improved cash flow visibility in the medium term. This is driven by commencement of three new malls in the last 12 months namely Phoenix Mall of Asia (Bengaluru), Phoenix Millenium (Pune) and Phoenix Citadel (Indore) with healthy occupancy levels of 92%, 92% and 94%, respectively, as of September 2023. Backed by healthy occupancy and low debt levels, the leverage at the platform level as reflected by Debt/NOI is strong and is expected to remain below 3.0 times in the medium term. Consequently, the debt coverage metrics are comfortable during the projected period. The rating also favourably factors in the strong sponsor profile. The Phoenix Mills Group is one of the largest retail mall company with ~11 msf of operational area (with an additional 2.85 msf of under-construction retail space and 5.0 msf of office space) with strong brand strength and operational track record of over three decades. The reputed sponsor profile lends strong financial flexibility to ISMDPL.

Notwithstanding the increase in proportion of operational assets in the platform, the portfolio continues to be dominated by under-construction assets at 59% (6.2 msf), which are at various stages of development, exposing the platform to moderate execution risk. Also, with nil pre-leasing in the under-construction projects, it is exposed to market risk and risk related to ramp-up and stabilisation of new assets. However, comfort can be drawn from the track record of timely execution of projects and healthy leasing levels by the Phoenix Group, thereby mitigating execution and market risks to an extent. Further, ISMDPL's revenues are exposed to adverse macroeconomic and force majeure events, which could impact the tenant's business risk profiles and mall operations.

The outlook on the rating is Stable, supported by healthy occupancy of operational assets, comfortable debt protection metrics and strong sponsor profile.

Key rating drivers and their description

Credit strengths

Increase in share of operational portfolio with the commencement of three retail malls; occupancy remains healthy - The platform recorded improvement in the operational portfolio, wherein the share of completed assets stood at 41% of the total leasable area as of November 2023 from 10% as of June 2022 resulting in improved cash flow visibility in the medium term.

This is driven by commencement of three new malls in the last 12 months namely Phoenix Mall of Asia (Bengaluru), Phoenix Millenium (Pune) and Phoenix Citadel (Indore) in ISMDPL's subsidiaries, Sparkle One Mall Developers Private Limited, Alyssum Developers Pvt Limited and Insight Mall Developers Pvt Limited, respectively, with healthy occupancy levels of 92%, 92% and 94%, respectively, as of September 2023. The rating takes comfort from diversified asset base with presence across five cities and catering to different segments (office and retail).

Comfortable debt protection metrics - Backed by healthy occupancy and low debt levels, the leverage at the platform level as reflected by Debt/NOI is strong and is expected to remain below 3.0 times in the medium term. Consequently, the debt coverage metrics are comfortable during the projected period.

Strong sponsor profile - ISMDPL is a 51:49 JV of PML and CCPIB. The Phoenix Mills Group is one of the largest retail mall companies with ~11 msf of operational area (with an additional 2.85 msf of under-construction retail space and 5.0 msf of office space) with strong brand strength and operational track record of over three decades. The reputed sponsor profile lends strong financial flexibility to ISMDPL.

Credit challenges

Large capex plans underway - Notwithstanding the increase in the proportion of operational assets in the platform, the portfolio continues to be dominated by under-construction assets at 59% (6.2 msf), which are at various stages of development, exposing the platform to moderate execution risk. Also, with nil pre-leasing in under-construction projects, it is exposed to market risk and risk related to ramp-up and stabilisation of new assets. However, comfort can be drawn from the track record of timely execution of projects and healthy leasing levels by the Phoenix Group, thereby mitigating the execution and market risks to an extent. While the platform is undertaking capex with pending cost of around Rs. 3,500-3,600 crore, it is funded with low leverage with debt to equity/internal accruals mix of 27%:73% and the funding is largely tied up.

Vulnerability to external factors - ISMDPL's revenues are exposed to adverse macroeconomic and force majeure events, which could impact the tenant's business risk profiles and mall operations.

Liquidity position: Adequate

The company's liquidity position is adequate with unencumbered cash balances of over Rs. 200 crore as on March 31, 2023 on a standalone basis and around Rs. 503 crore at the platform level. It has repayment obligation of Rs. 20 crore in FY2024 and Rs. 32 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations. While the platform is undertaking capex plans with pending cost of around Rs. 3,500-3,600 crore, it is funded with low leverage with debt to equity/internal accruals mix of 27%:73% and the funding is largely tied up.

Rating sensitivities

Positive factors - ICRA could upgrade the rating on stabilisation of operations of the recently started malls with high occupancy levels, healthy ramp-up in leasing in the office portfolio resulting in sustained improvement in leverage metrics while maintaining healthy coverage metrics.

Negative factors - Negative pressure on the ratings could emerge if there is a material decline in occupancy or rent rates in malls or significant increase in indebtedness resulting in weakening of debt protection metrics on a sustained basis. Specific credit metric that could lead to a downgrade is Total 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
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating of 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 the assets are expected to have cash flow fungibility. Please refer Annexure II for the list of entities considered for consolidated analysis.

About the company

ISMDPL is a 51:49 subsidiary of PML and CPPIB. It owns and operates the Phoenix Market City Mall in Whitefield, Bengaluru, which has a total leasable area of ~1.0 msf and has been operational since 2010. ISMDPL has recently started operations of three new retail malls namely Phoenix Citadel, Indore, Phoenix Mall of Asia, Bangalore and Phoenix Millenium, Pune in its subsidiaries.

Besides its owned assets, Phoenix Mills Limited (PML) has entered into agreements with investment majors such as CPPIB and GIC Private Ltd. to develop retail-led mixed-use properties. At present, the PML-CPPIB platform has four operational retail malls. In addition, CPPIB has partnered PML in two more assets in FY2022 – PMC Kolkata in Mindstone Mall Developers Private Limited (MMDPL) and Project Rise, office at Lower Parel Mumbai in Plutocrat Commercial Real Estate Private Limited (PCREPL). While the shareholding in PCREPL stood at 40.3% as of March 2023, CPPIB is expected to increase the shareholding to 49% and the remaining will be held by PML.

Key financial indicators (audited)

PML-CPPIB *	FY2022	FY2023
Operating income	175.9	302.9
PAT	83.1	145.7
OPBDIT/OI	62.8%	62.6%
PAT/OI	47.2%	48.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	3.9	2.8
Interest coverage (times)	55.5	11.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Source: Company, ICRA research; *ICRA adjusted financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 02, 2024	Nov 17, 2022	-	-	-
1	Term loans	Long-term	245.0	0.0	[ICRA]A+ (Stable)	[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:

Company Name	ISMDPL Ownership	Consolidation Approach
Island Star Mall Developers Private Limited	Rated entity	Full Consolidation
Sparkle One Mall Developers Private Limited	100.00%	Full Consolidation
Alyssum Developers Pvt Limited	100.00%	Full Consolidation
Insight Mall Developers Pvt Limited	100.00%	Full Consolidation
Plutocrat Commercial Real Estate Pvt Ltd (PCREPL)	-*	Full Consolidation
Mindstone Mall Developers Pvt Ltd (MMDPL)	-*	Full Consolidation

*Source: ISMDPL, ICRA Research; *PCREPL and MMDPL are 59.7%:40.3% and 51%:49% owned by PML and CPPIB respectively. The above six assets are part of PML-CPPIB platform and are in same line of business with common promoters, have financial linkages with cash flow fungibility.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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