

January 02, 2024<sup>(Revised)</sup>

## Sparkle One Mall Developers Private Limited: Rating upgraded to [ICRA]A (Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	400.0	400.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
<b>Total</b>	<b>400.0</b>	<b>400.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Sparkle One Mall Developers Private Limited (SOMDPL) factors in the completion of the mall with date of commercial commencement of operations (DCCO) in October 2023 (well ahead of the scheduled DCCO of December 2024), along with healthy leasing of 92% as of September 2023 (76% of pre-leasing as of June 2022). The rentals for the mall commenced from October 2023 in a phased manner. The ramp-up in footfalls and trading values remains to be seen for the mall operations. Backed by healthy leasing and low debt levels, the leverage as reflected by Debt/NOI is expected to remain strong below 2.0 times in the medium term. Consequently, the debt coverage metrics are likely to remain comfortable during the projected period.

The rating favourably factors in the strong sponsor profile. SOMDPL is a subsidiary 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). The Phoenix Mills Group is one of the largest retail mall companies encompassing ~11 million square feet (msf) of operational area (with an additional 2.85 msf of under-construction retail space and 5.0 msf of office spaces), with strong brand strength and operational track record of over three decades. The promoter groups such as PML and CPPIB with a demonstrated track record in real estate development lends strong financial flexibility to SOMDPL. ICRA expects ISMDPL to extend extraordinary support to SOMDPL, given the strategic importance and the sponsor's reputation sensitivity to default. The rating notes the attractive location of the mall. It has good connectivity to key city areas and has an attractive catchment area due to the presence of many residential and commercial developments, which are likely to support healthy footfalls.

The rating, is however, constrained by the exposure to execution and market risk for the office space being developed by SOMDPL in Phoenix Mall of Asia. The office project is in nascent stages of execution as only 9% of the total cost has been incurred as of September 2023 exposing it to execution risk. Also, with nil pre-leasing in the office project, it is exposed to market risk. However, comfort can be drawn from the track record of timely execution of projects by the Phoenix Group and no additional debt is expected to be taken for the office project, thereby mitigating the execution risk to an extent. The company is exposed to geographical and asset concentration risks, which are inherent in companies with single projects. In addition, SOMDPL's revenues are exposed to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles.

ICRA takes note of recent directive from Bengaluru police to close the mall operations for 15 days from December 31, 2023, to January 15, 2024, to address the traffic issues during the festive season. However, the company got a stay from the High Court of Karnataka on this, and the mall was closed only for one day on December 31, 2023. ICRA will monitor the developments in this regard and evaluate the implications of the same on the mall operations. However, the healthy occupancy levels of the mall and low leverage mitigate the risk to an extent. The debt obligations are low in FY2024 and FY2025. Further, comfort can be derived from the strong parentage which provides financial flexibility.

The outlook on the rating is Stable, supported by healthy occupancy levels, comfortable debt protection metrics and synergies from Phoenix Mills Group.

## Key rating drivers and their description

### Credit strengths

**Commencement of mall operations with healthy leasing levels; comfortable debt protection metrics** – The DCCO for the mall was in October 2023 (well ahead of the scheduled DCCO of December 2024), along with healthy leasing of 92% as of September 2023 (76% of pre-leasing as of June 2022). The rentals for the mall commenced from October 2023 in a phased manner. The mall has signed long-term lease agreements with reputed tenants viz Inox, Zara, Home Centre, H&M, etc, with top 10 tenants occupying 25% of chargeable area. The ramp-up in footfalls and trading values remains to be seen for the mall operations. Backed by healthy leasing and low debt levels, the leverage as reflected by Debt/NOI is expected to remain strong below 2.0 times in the medium term. Consequently, the debt coverage metrics are likely to remain comfortable during the projected period.

**Location-specific advantage and good connectivity** – The mall has an operational retail leasable area of ~1.2 msf and under-construction office space of 1.2 msf. The location of the asset has good connectivity to key city areas and has an attractive catchment area due to presence of many residential and commercial developments, which are likely to support healthy footfalls.

**Strong sponsor profile** – SOMDPL is a subsidiary of ISMDPL, which is a 51:49 JV of PML and CPPIB. The Phoenix Mills Group is one of the largest retail mall companies encompassing ~11 msf of operational area (with an additional 2.85 msf of under-construction retail space and 5.0 msf of office spaces) with strong brand strength and operational track record of over three decades. The promoter groups such as PML and CPPIB with a demonstrated track record in real estate development lends strong financial flexibility to SOMDPL. ICRA expects ISMDPL to extend extraordinary support to SOMDPL, given the strategic importance and the sponsor's reputation sensitivity to default.

### Credit challenges

**Exposure to execution and market risks for office expansion** – The office project is in nascent stages of execution as only 9% of the total cost has been incurred as of September 2023 exposing it to execution risk. Also, with nil pre-leasing in the office project, it is exposed to market risk. However, comfort can be drawn from the track record of timely execution of projects by the Phoenix Group and no additional debt is expected to be taken for office project, thereby mitigating the execution risk to an extent.

**Geographical and asset concentration risks; vulnerability to external factors** – 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. In addition, SOMDPL's revenues are exposed to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles.

### Liquidity position: Adequate

The company's liquidity position is adequate. With healthy leasing levels, its cash flows are expected to remain healthy. The debt repayment obligations can be comfortably met from cash flow from operations of the mall in FY2024 and FY2025. The construction of the office project is underway with a total cost of Rs. 400 crore and is expected to be funded by the internal accruals of the mall and undrawn limits from the existing LRD debt.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if there is healthy ramp-up in leasing of office portfolio while sustaining high occupancy of retail malls resulting in improvement in debt protection metrics and liquidity position on a sustained basis. Further improvement in the credit profile of parent entity, ISMDPL, could lead to a positive rating action.

**Negative factors** – Negative pressure on the rating could emerge if there is material decline in occupancy or rent rates in the mall project 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. Any weakening of the credit profile of parent entity, ISMDPL, could also lead to a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Realty – Lease Rental Discounting (LRD)</a>
Parent/Group support	Parent company: Island Star Mall Developers Private Limited The rating factors in the expected financial support from ISMDPL to SOMDPL to protect its reputation from the consequence 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. The company is developing a mixed-use development project in Bengaluru, namely Phoenix Mall of Asia, at a gross leasable area of 1.2 msf each in the retail and office space. Further, the retail mall got operational from October 2023, and the office project is in under-construction stage. At a total project cost of Rs. 400 crore for office, the first phase of the office project is expected to commence in Q1 FY2025 and the second phase in Q1 FY2026.

## Key financial indicators

Not applicable as the mall got operational in October 2023

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		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
				Jan 02, 2024	Oct 4, 2022	-	-
1	Term loans	Long-term	400.0	33.6	[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	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

#### Corrigendum

Rationale dated January 02, 2024 has been revised with changes as below:

- Revision in the applicable rating methodologies in the analytical approach section on page number 3

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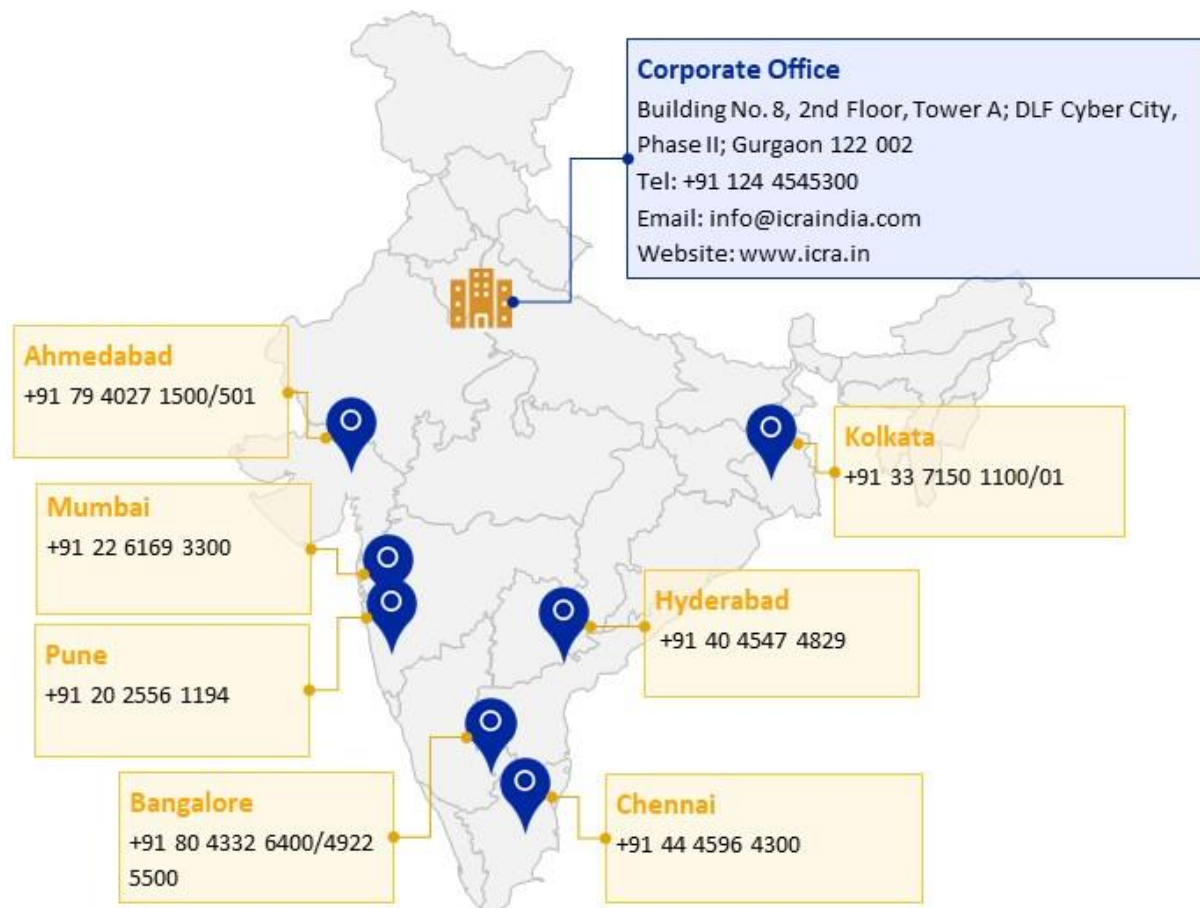


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