

August 11, 2017

Lulu Lucknow Shopping Mall Private Limited (Revised)

Summary of Rated Instruments

Instrument	Rated Amount (Rs. crore)	Rating Action
Fund based facilities	945.00	[ICRA]BBB (Stable); Assigned
Total	945.00	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned rating of [ICRA]BBB (Stable) (pronounced ICRA triple B) to the Rs. 945.00 crore¹ fund based facilities of Lulu Lucknow Shopping Mall Private Limited (LLSM)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating reflects LLSM's strong parentage, being part of Lulu Group which has vast experience in hospitality, retail and commercial real estate sectors. The rating also takes comfort from the favorable project location of the proposed shopping mall, located within Sushant Golf City, a residential township adjacent to the upcoming Lucknow IT City and the low approval risk as the project has received the necessary approvals to carry out the construction work. In terms of design and specifications, Lulu Lucknow Mall has many similarities with the hugely successful Lulu Kochi Mall. Further, similar to Kochi Mall, the management intends to use ~44% of LLSM's leasable space for its own retail outlets namely, Lulu Hypermarket, Lulu Connect, Lulu Celebrate, and Lulu Sparkys. Once operational, Lulu's own outlets are expected to account for 85-90% of LLSM's revenues.

The project remains exposed to execution risk given the nascent stages of construction; however, comfort can be taken from the vast experience of the group in executing large real estate and hospitality projects. Further, LLSM's tie-up with reputed consultants, architects and construction contractors provides some comfort. The total project cost of Rs. 1350 crore is proposed to be funded through Rs. 405 crore of equity and Rs. 945 crore of debt. As on March 31, 2017, LLSM incurred Rs. 140 crore which was funded through equity of Rs. 101.50 crore and debt of Rs.38.50 crore.. The term loan has a door to door tenor of 168 months covering 48 months of moratorium during construction period and repayment period of 120 months. Notwithstanding the success of Lulu Kochi Mall with good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls in Lucknow market remains to be seen.

Given the vulnerability of the sector to competition and economic slowdown, ICRA views absorption of LLSM's retail space and ability to attract footfalls to be contingent on the business environment and other competing malls at the time of launch of the project and the same remains an important monitorable.

Going forward, the ability of the company to implement the project as per the schedule without any time and cost overruns, and its ability to tie-up leases and attract footfalls once launched will be the key rating sensitivity factors.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Key Rating Drivers

Credit Strengths

- **Strong Parentage:** Part of the Lulu Group with vast experience in retail, commercial real estate and hospitality sectors
- **Favorable Project Location:** Sushant Golf City is a residential township sprawling across 6465 acres is located on the Lucknow-Sultanpur National Highway on Amar Shaheed Path, Ring Road. IT city by HCL, Amul Dairy Processing Plant, Medanta Super Speciality Hospital and International Cricket Stadium are the major projects coming up in the vicinity of the township
- **Low Approval Risk:** The project has received the necessary approvals to carry out the construction work

Credit Challenges

- **Execution Risk:** The project remains exposed to execution risk given the nascent stages of construction; however, comfort can be taken from the vast experience of the group in executing large real estate and hospitality projects
- **Operational Risk:** Notwithstanding the success of Lulu Kochi Mall with good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls and command premium rentals in Lucknow market remains to be seen
- **Market Risk:** Given that Lulu's own outlets are expected to account for 85-90% of LLSM's revenues, the debt servicing ability of LLSM critically hinges on footfalls and performance of lulu retail stores

Analytical Approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to Applicable Criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Retail Industry](#)

[Rating Methodology for Real Estate Entities](#)

About the Company

Promoted by Lulu group, Lulu Lucknow Shopping Mall Private Limited (LLSM) was incorporated in May 2016 for setting up a shopping mall in Lucknow, Uttar Pradesh measuring 1.7 million sft consisting of leasable area of 682,000 sft and parking area of 712,000 sft. Mr. Yusuff Ali M.A and his family members hold 100% in LLSM. 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 upcoming Lucknow IT City. Lulu's own retail outlets (hypermarket, celebrate, sparkys) are expected to occupy 297,000 sq. ft and will be the major anchor stores for the mall and the remaining space of 385,000 sq.ft will be let out on lease. Total project cost is estimated at Rs. 1,350 crore which is proposed to be financed by term loan of Rs. 945 crore and equity of Rs. 405 crore. The project is expected to be ready by September 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				August 2017	-	-	-
1	Fund Based Facility-Term Loan	Long Term	945.00	[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 www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Fund Based Facility-Term Loan	March 2017	9.6%	March 2031	945.00	[ICRA]BBB (Stable)

Source: Lulu Lucknow Shopping Mall Private Limited



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