

June 20, 2023

Lulu International Shopping Malls Private Limited: Rating reaffirmed; outlook revised to Stable from Positive; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	1630.75	2959.42	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount; outlook revised to Stable from Positive
Fund-based – Working capital facilities	190.00	650.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount; outlook revised to Stable from Positive
Non-fund based – Working capital facilities	20.00	145.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount; outlook revised to Stable from Positive
Unallocated	9.25	203.08	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount; outlook revised to Stable from Positive
Total	1850.00	3957.50	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the rating of Lulu International Shopping Malls Private Limited (LISMPL), ICRA has consolidated the financials of LISMPL and Lulu India Shopping Mall Private Limited (Lulu India), given the close business, financial and managerial linkages among them.

The outlook revision to Stable factors in LISMPL's large capex outlay in the medium term towards new malls and hypermarkets, which is primarily to be funded by debt resulting in significant increase in indebtedness and moderation in debt coverage metrics. Further, the retail operations of the Lulu Hypermarkets in the Trivandrum and Bangalore malls, which commenced operations in 2022, are yet to ramp-up fully.

The rating factors in the favourable location of the Lulu Kochi Mall, along with Kochi Marriot hotel, located in Edapally Junction with direct passage from the metro station. Further, Lulu Trivandrum Mall is favourably located near Trivandrum International Airport and Technopark, while the Lulu Bengaluru Mall is favourably located in Rajaji Nagar, Bengaluru, with limited competition. The rating takes comfort from the strong parentage for LISMPL, being a part of the Lulu Group, which has vast experience in hospitality, retail, and mall operations. The rating favourably notes the healthy occupancy of above 95% in all the three malls. The company also operates its own retail format stores, which occupy around 47%, 45% and 45% of the leasable area in Kochi, Bengaluru, and Trivandrum malls, respectively. The consolidated revenues have increased significantly by 140% YoY to around Rs. 3,200 crore (estimated) in FY2023 with opening of new malls. Consequently, the operating margins improved and are estimated to be around 14-15% in FY2023. ICRA expects LISMPL to sustain these margins and witness healthy revenue growth in the range of 25-35% YoY in FY2024 and FY2025, with ramp-up of operations and expected additions of new hypermarkets.

Lulu Lucknow Mall has a leasable area of 7.45 lakh sq. ft. It which is under a group company – Lulu India – and the mall recently commenced operations in July 2022. The mall witnessed healthy ramp-up in occupancy as reflected by an occupancy of 84% of the leasable area earmarked for retail operations of non-Group entities. The mall, however, is yet to ramp-up and is expected to be dependent on support from LISMPL in the near term.

The company has large capex plans of Rs. 700-750 crore in FY2024 and Rs. 600-650 crore in FY2025 towards new hypermarkets, opening of a new mall on lease basis and purchase of land parcel for future expansion, which is expected to be largely debt

funded. This along with the high working capital requirements of the retail division are estimated to increase the consolidated debt to Rs. 5,500-5,700 crore (excluding lease liabilities) by FY2024 from Rs. 4072 crore in FY2022. As a result, the leverage (Total debt/EBITDA) is likely to be high in the near term. Further, the coverage indicators are expected to remain modest with DSCR in the range of 1.1-1.15 times in FY2024. The rating is constrained by the vulnerability of the company's mall and own retail operations to external factors, which can adversely impact its revenues and profitability as witnessed during FY2021 and FY2022 due to the Covid-19 pandemic.

Key rating drivers and their description

Credit strengths

Favourable location of all three malls – Lulu Kochi Mall, along with Kochi Marriot hotel, is favourably located in Edapally Junction with direct passage from the metro station. Further, Lulu Trivandrum Mall is favourably located near Trivandrum International Airport and Technopark, while the Lulu Bengaluru Mall is favourably located in Rajaji Nagar with limited competition. As a result, these malls have a healthy occupancy levels, premium brand participation and healthy footfalls.

Strong parentage and resourceful promoters – LISMPL is a part of the Lulu Group, headquartered in Abu Dhabi, with operations spread over three continents with vast experience in retail, mall operations and hospitality sectors. Further, the promoter Mr. Yusuf Ali has offered strong security package to the company's current lenders in the form of fixed deposits amounting to Rs. 1,000 crore, against which it has availed a LABOD facility of Rs. 980 crore.

Healthy increase in operating income driven by opening of Trivandrum and Bengaluru malls; expected to further ramp-up in near to medium term – Lulu Trivandrum and Lulu Bengaluru malls witnessed steady ramp-up in terms of occupancy levels as reflected by healthy occupancy of above 95% in all the three malls. The company operates its own retail format stores including the amusement park, which occupy around 47%, 45% and 45% of area, respectively, in Lulu Kochi, Lulu Trivandrum and Lulu Bengaluru malls. However, the retail operations of Lulu Hypermarket in Bengaluru Mall witnessed slower ramp-up due to stiff competition from other malls in Bengaluru and impact of start-up companies in the city. The consolidated revenues increased significantly by 140% YoY to around Rs. 3,200 crore (estimated) in FY2023 with opening of new malls. Consequently, the operating margins improved and are estimated to be around 14-15% in FY2023. ICRA expects LISMPL to sustain these margins and witness healthy revenue growth in the range of 25-35% YoY in FY2024 and FY2025, with ramp-up of operations and expected additions of new hypermarkets.

Credit challenges

Large capex plans to result in higher reliance on debt – The company has large capex plans of Rs. 700-750 crore in FY2024 and Rs. 600-650 crore in FY2025 towards new hypermarkets, opening of a new mall on lease basis and purchase of land parcel for future expansion, which is expected to be largely debt funded. This along with the high working capital requirements of retail division is estimated to increase the consolidated debt to Rs. 5,500-5,700 crore (excluding lease liabilities) by FY2024 from Rs. 4,072 crore in FY2022.

High leverage and modest coverage metrics – With the expected increase in the debt levels, the leverage (total debt/OPBITDA) is estimated to be high at around 10.0 times in FY2023 and is likely to improve going forward, supported by the ramping up of OPBITDA levels. Further, the coverage indicators are expected to remain modest with DSCR in the range of 1.1-1.15 times in FY2024. Notwithstanding the Group's significant experience in operating malls and the success of Lulu Kochi Mall, the company's ability to attract footfalls at these new malls and ramp-up in the operations of hypermarkets are critical for improvement in leverage and coverage metrics in the medium term.

Vulnerability to external factors – LISMPL's revenues are exposed to adverse macroeconomic and external conditions such as the Covid-19 pandemic, which could impact the tenant's business risk profiles and the company's retail division as reflected in FY2021 and FY2022.

Liquidity position: Adequate

The company has free cash of Rs. 137.3 crore as on March 31, 2023. It has repayment obligation of Rs. 203.6 crore in FY2024, which can be met from the estimated cash flow from operations. It is planning to undertake a capex of Rs. 700- 750 crore in FY2024 towards new hypermarkets, mall and land purchase, which is expected to be largely funded from the undrawn sanctioned debt.

Rating sensitivities

Positive factors – The rating can be upgraded in case of significant improvement in revenues and profitability, supported by healthy ramp-up of Bengaluru and Trivandrum malls, upcoming malls and hypermarkets resulting in improved leverage and coverage metrics on a sustained basis.

Negative factors – Pressure on the rating can arise in case of a delay in the ramp-up of the recently commenced malls, upcoming malls and hypermarkets affecting revenues and profitability or significant increase in indebtedness resulting in weakening of liquidity, leverage, and coverage metrics on a sustained basis. Additionally, DSCR of less than 1.1 times, on a sustained basis, could lead to downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Debt backed by lease rentals Entities in the hotel industry Rating Methodology for Entities in the retail industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating of LISMPL, ICRA has consolidated the financials of LISMPL and Lulu India Shopping Mall Private Limited, given the close business, financial and managerial linkages among them.

About the company

Promoted by Mr. Yusuff Ali M.A. and Mr. Ashraf Ali M.A (younger brother of Yusuff Ali), Lulu International Shopping Malls Private Limited was incorporated in 2004 to construct and run shopping malls, hypermarkets, amusement centres, hotels and similar activities. The company acquired around 15 acres of prime land at Edappally, Kochi and constructed a mega shopping mall and a five-star hotel spread over 18,45,000 sq. ft of built-up area, which includes 14,70,000 sq. ft. for the shopping mall and 3,75,000 sq. ft. for the hotel. The shopping mall started operations on March 10, 2013 and the hotel on December 21, 2014. It has developed around 6.35 lakh sq. ft of leasable area in Kochi Mall, out of which 2.82 lakh sq. ft of carpet area is used for its own retail outlets such as Lulu Hypermarket, Lulu Fashion Store, Lulu Connect, Lulu Celebrate and an amusement park with Funtura brand. The rest of the area in the shopping mall is leased out to several international and national brands. The five-star deluxe hotel is operated by Marriott Hotels India Pvt. Ltd. as Kochi Marriott Hotel. Following the huge success of the Kochi Mall, the company expanded its operations by constructing a similar shopping mall in Bengaluru with 4.62 lakh sq. ft. of leasable area, which started operations from October 2021 and Trivandrum with a 6.31 lakh sq. ft of leasable area, which has started operations from December 2021. The company also operates two standalone hypermarkets, one each in Kerala and Karnataka.

Key financial indicators

LISMPL Consolidated	FY2021	FY2022
	Audited	Audited
Operating income	734.6	1328.8
PAT	-99.8	-167.7
OPBDIT/OI	5.2%	6.2%
PAT/OI	-13.6%	-12.6%
Total outside liabilities/Tangible net worth (times)	7.0	12.5
Total debt/OPBDIT (times)	98.9	57.5
Interest coverage (times)	0.5	0.4

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

Source: Company, 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 (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	
						Jun 20, 2023	-	March 11, 2022	Dec 03, 2020
1	Term loans	2959.42	2529.4	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	
2	Fund-based – Working capital facilities	650.00	--	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	
3	Non-fund based – Working capital facilities	145.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	
4	Unallocated	203.08	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)		

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based – Working capital facilities	Simple
Non-fund based – Working capital facilities	Very Simple
Unallocated	Not Applicable

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
-	Term loan	FY2020/FY2023	-	FY2026/FY2032	2,809.42	[ICRA]BBB+ (Stable)
-	Proposed term loan	-	-	-	150.00	[ICRA]BBB+ (Stable)
-	Fund based facilities	-	-	-	650.00	[ICRA]BBB+ (Stable)
-	Non-fund based facilities	-	-	-	145.00	[ICRA]BBB+ (Stable)
-	Unallocated	-	-	-	203.08	[ICRA]BBB+ (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	LISMPL Ownership	Consolidation Approach
Lulu India Shopping Malls Private Limited	*	Full Consolidation

Source: ICRA Research, Company; *Lulu India Shopping Malls Private Limited is 100% owned by the promoters of LISMPL

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