

June 20, 2023

Lulu India Shopping Mall Private Limited (formerly Lulu Lucknow Shopping Mall 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	945.00	945.00	[ICRA]BBB (Stable); reaffirmed;
Total	945.00	945.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Lulu India Shopping Mall Private Limited's (LISMPL) strong parentage, being a part of the Lulu Group, which has vast experience in hospitality, retail, and mall operations. The rating considers the favourable location of the shopping mall, located within the Sushant Golf City on the Lucknow-Sultanpur National Highway. Further, the rating notes the recent commencement of the mall's operations in July 2022 and the subsequent ramp-up in occupancy as reflected by an occupancy of 84% for the leasable area earmarked for retail operations of non-Group entities as of May 2023. The company's revenues are estimated to be around Rs. 320-340 crore in FY2023 and increase to Rs. 600-650 crore in FY2024, which will be its first full year of operations. ICRA expects its group company – Lulu International Shopping Malls Private Limited (Lulu International) – to extend timely support to LISMPL in case of any cash flow mismatches, given the close business, financial and managerial linkages among them.

The rating, however, is constrained by the modest projected debt service coverage ratio (DSCR), which is estimated to be less than 1 times during the initial years of operations in FY2023 and FY2024. Nonetheless, the provision of maintaining a debt servicing reserve account (DSRA) for three months of principal and interest obligation and resourceful promoters provide comfort. With expected ramp-up in Lulu hypermarkets and the leasing segment, the DSCR is anticipated to improve from FY2025 onwards. LISMPL is likely to face stiff competition from the existing and upcoming malls in the city. However, the high patronage enjoyed by its own retail outlets and amusement division (Funtura), the current tie-ups with established brands are likely to attract footfalls. 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.

The outlook on the rating is Stable, supported by ICRA's expectation that LISMPL will benefit from being a part of the Lulu Group and favourable location of the mall.

Key rating drivers and their description

Credit strengths

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, commercial real estate 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 worth Rs. 1,000 crore, against which it has availed a LABOD facility of Rs. 980 crore.

Favourable project location – The project is located in Sushant Golf City, a residential township on the Lucknow-Sultanpur National Highway, with a good catchment area.

Ramp up in occupancy and operations – The Lulu Lucknow mall 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 as of May 2023. The company's revenues are estimated to be around Rs. 320-340 crore in FY2023 and increase to Rs. 600-650 crore in FY2024, which will be its first full year of operations.

Credit challenges

Modest DSCR during initial years of operation – The rating is constrained by the modest projected DSCR, which is estimated to be less than 1 times during its initial years of operations in FY2023 and FY2024. Nonetheless, the provision of DSRA for three months of principal and interest obligation and resourceful promoters provide comfort. With expected ramp-up in Lulu supermarkets and the leasing segment, the DSCR is likely to improve from FY2025 onwards. ICRA expects the Group company – Lulu International – to extend timely support to LISMPL in case of any cash flow mismatches, given the close business, financial and managerial linkages among them.

Competition from existing and upcoming retail malls – LISMPL is likely to face stiff competition from the existing and upcoming malls in the city. However, the high patronage enjoyed by Lulu's own retail outlets including its amusement division (Funtura) and current tie-ups with the established brands are expected to attract footfalls to the mall.

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.

Liquidity position: Adequate

The company's liquidity is adequate with DSRA of Rs. 21.0 crore as of February 2023. During the initial years, the cash flow from operations may not be sufficient to meet the debt repayment obligations. However, DSRA of three months of principal as well as interest obligation and support from Lulu International provide comfort.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant increase in revenues and profitability backed by ramp-up of retail store performance and increase in occupancy levels resulting in improvement in debt coverage metrics and liquidity position on a sustained basis. Specific credit metrics that could lead to an upgrade of LISMPL's rating include five-year average DSCR greater than 1.1 times.

Negative factors – Negative pressure on the rating could arise if there is a delay in ramp-up of the mall's operations or performance of Lulu's retail stores resulting in deterioration of debt coverage and leverage metrics on a sustained basis. Further, any significant increase in indebtedness or lack of timely support or weakening of the credit profile of Lulu International would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry Rating Methodology for debt backed by lease rentals
Parent/Group support	Group Company – Lulu International Shopping Malls Private Limited The rating factors in the expected financial support from Lulu International Shopping Malls Private Limited to LISMPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Promoted by the Lulu Group, LISMPL was incorporated on May 20, 2016, with an objective to set up a shopping mall in Lucknow, Uttar Pradesh. The company purchased 10.65 acres of land in Sushant Golf City, which is a residential township surrounding an international golf course, sprawling across 6,465 acres. LISMPL constructed a shopping mall measuring 17 lakh sft consisting of carpet area of 7.45 lakh sft and parking area of 7.12 lakh sft. Lulu's own retail outlets occupy around 3.3 lakh sft (44.0%), which will be the major anchor stores for the mall and the remaining space of 3.7 lakh sft (56%) will be let out on lease. The mall became operational from July 2022.

Key financial indicators (audited)

LISMPL	FY2021	FY2022
Operating income	0.0	0.9
PAT	0.7	-1.0
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	8.6	10.3
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-	-

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 (Rs. crore) as of Feb, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					June 20, 2023	May 20, 2022	-	Feb 1, 2021
1	Term loans	Long term	945.0	919.9	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (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
	Term loan-I	Oct 2017	NA	FY2032	945.0	[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 – Not Applicable

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