

January 17, 2020

## 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: Term Loan facilities	945.00	945.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>945.00</b>	<b>945.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in Lulu India Shopping Mall Private Limited's (LISMPL) strong parentage, being part of the Lulu Group, which has vast experience in hospitality, retail and commercial real estate sectors. The rating takes comfort from the favourable project location of the shopping mall, located within Sushant Golf City on the Lucknow-Sultanpur National Highway. The total project cost of Rs. 1,350.0 crore is proposed to be funded with equity infusion of Rs. 405.0 crore and debt funding of Rs. 945.0 crore (D/E of 70:30). With necessary approvals in place, the progress of construction is satisfactory and is in line with the scheduled milestones. Till October 31, 2019, the company incurred Rs. 692.5 crore, which translates to 51.3% of the total cost, funded through promoter funds of Rs. 194.90 crore, debt of Rs. 485.61 crore and customer advances of Rs. 12 crore. The mall is expected to commence operations by Q3 FY2021.

The rating is constrained by the residual execution risk with 48.7% of pending construction. However, comfort can be drawn from the Group's vast experience in executing large real estate and hospitality projects. Notwithstanding the success of Lulu Kochi with good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls in the Lucknow market, generate similar response for own stores and command premium rentals for non-Lulu stores in Lucknow remains to be seen. However, ICRA notes that 55% of area earmarked for external tenants (2.31 lakh sft. out of 4.22 lakh sft. of leasable area), apart from ~3.44 lakh sft. of area to be occupied by Lulu's own retail outlets has been tied-up, thereby mitigating the market risk to an extent. Its own retail outlets namely - Lulu Hypermarket, Lulu Connect, Lulu Celebrate, and Lulu Sparkys are expected to account for 85-90% of LISMPL's revenues once the mall gets operational. The debt servicing ability of Lulu Lucknow mall critically hinges on LISMPL's ability to command premium rentals and performance of Lulu retail stores. Further, the projected DSCR is expected to remain thin during the initial years of its operations. Nevertheless, the provision of DSRA reserve of three months of principal and interest obligation and resourceful promoters provide comfort.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage by virtue of being part of Lulu Group** – 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.

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

**Current project progress as per schedule** – The total project cost of Rs. 1,350.0 crore is proposed to be funded with an equity infusion of Rs. 405.0 crore and debt funding of Rs. 945.0 crore (D/E of 70:30). With necessary approvals in place, the progress of construction is satisfactory and is in line with the scheduled milestones. Till October 31, 2019, the company incurred Rs. 692.5 crore, which translates to 51.3% of the total cost, funded through promoter funds of Rs. 194.90 crore, debt of Rs. 485.61 crore and customer advances of Rs. 12 crore. The mall is likely to commence operations by Q3 FY2021.

## Credit challenges

**Project remains exposed to residual execution risks** – LISMPL is exposed to residual execution risk with 48.7% of pending construction. However, comfort can be drawn from the Group's vast experience in executing large real estate and hospitality projects.

**Moderate market risk** – Notwithstanding the success of Lulu Kochi with good response for Lulu Hypermarkets and robust footfalls, the company's ability to attract footfalls in the Lucknow market, generate similar response for its own stores and command premium rentals for non-Lulu stores in Lucknow remains to be seen. However, ICRA notes that 55% of the area earmarked for external tenants (2.31 lakh sft. out of 4.22 lakh sft. of leasable area), apart from ~3.44 lakh sft. of area to be occupied by Lulu's own retail outlets has been tied-up, thereby mitigating market risk to an extent. Its own retail outlets namely - Lulu Hypermarket, Lulu Connect, Lulu Celebrate, and Lulu Sparkys are likely to account for 85-90% of LISMPL's revenues once the mall gets operational. The debt servicing ability of the Lulu Lucknow mall critically hinges on LISMPL's ability to command premium rentals and performance of Lulu retail stores.

**Thin DSCR cushion during initial years of operation** – The projected DSCR is thin during the initial years of its operations. However, the provision of DSRA reserve of three months of principal and interest obligation and resourceful promoters provide comfort.

## Liquidity position: Adequate

The company's liquidity is adequate with unencumbered cash balance of Rs. 5.22 crore as on March 31, 2019. The pending project cost of Rs. 657.5 crore is expected to be funded by way of debt to the extent of Rs. 459.4 crore and the rest from equity. The debt repayment starts in June 2021 and the annual repayment for FY2022 is Rs. 50 crore. During the initial years, the cash flow from operations may not be sufficient to meet the debt repayment obligation. However, the presence of debt service reserve account of three months of principal and interest obligation and resourceful promoters provide comfort.

## Rating sensitivities

**Positive triggers** – Better-than-expected occupancy and lease rentals and performance of Lulu retail stores might lead to a rating upgrade. Specific credit metrics that could lead to an upgrade of LISMPL's rating include average DSCR for first five years greater than 1.1 times.

**Negative triggers** – Negative pressure on the rating could arise in case of delay in execution of the project or delay in infusion of equity leading to cost and time overrun and/or lower-than-anticipated occupancy or lease rentals or performance of Lulu retail stores. Further, any delay/ lower-than-anticipated support from the promoters would be a credit negative.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Retail Industry</a> <a href="#">Rating Methodology for debt backed by lease rentals</a>
Parent/Group Support	Group Company: Lulu Group The rating factors in the likelihood of LISMPL's promoters extending financial support out of the need 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 in May 2016 for setting up a shopping mall in Lucknow, Uttar Pradesh measuring 19.5 lakh sft consisting of leasable area of 7.66 lakh sft and parking area of 5.61 lakh sft. Mr. Yusuff Ali M.A and his family members hold 100% in the company. The company has purchased 10.65 acres of land inside Sushant Golf City, which is a residential township, surrounding an international golf course adjacent to Lucknow IT City. Lulu's own retail outlets (Hypermarket, Celebrate, Sparkys) are expected to occupy 3.44 lakh sft and will be the major anchor stores for the mall and the remaining space of 4.22 lakh sft will be let out on lease. The total project cost is estimated at Rs. 1,350.0 crore, which is proposed to be financed by term loan of Rs. 945.0 crore and equity of Rs. 405.0 crore. The project is likely to be completed by September 2020. As on October 31, 2019, the company incurred Rs. 692.50 crore (translating to ~51.3% of total project cost), which is funded through an equity infusion of Rs. 194.90 crore, debt of Rs. 485.61 crore and customer advances of Rs. 12 crore. The pending project cost of Rs. 657.5 crore is likely to be funded by way of debt to the extent of Rs. 459.4 crore and the rest from equity.

## Key financial indicators (audited)

Not applicable since LISMPL is a project stage company.

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

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					17-Jan-2020	23-Nov-2018	11-Aug-2017	-
1	Term Loan	Long Term	945	485.61	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-

Amount in Rs. crore

## 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](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term: Term Loans	March 2017	-	FY2031	945.00	[ICRA]BBB (Stable)

Source: LISMPPL

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