March 11, 2022

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan	1512.86	1630.75	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Fund-based – Working Capital Facilities	190.00	190.00	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Non-fund Based – Working Capital Facilities	20.00	20.00	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Unallocated (Long-term)	127.14	9.25	[ICRA]BBB+; reaffirmed; Outlook revised to Positive from Stable
Total	**1850.00**	**1850.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision to Positive factors in the expected improvement in the financial risk profile of Lulu International Shopping Malls Private Limited (LISMPL / Lulu) over the near to medium term, driven by commencement of operations at two new malls in Trivandrum and Bengaluru in December 2021 and October 2021, respectively. The ramp-up in operations at these two malls are expected to translate into healthy revenue growth, along with improvement in leverage and coverage metrics. LISMPL has already signed leases for around 55% and 67% of the total area as of December 2021 and is in various stages of lease tie-ups for a considerable portion of the remaining area. With recovery in footfalls in Q3FY2022, limited impact of the third Covid-19 wave and commencement of new malls, the revenues are expected to increase by 95-105% in FY2022 and by 85-90% in FY2023, with a consequent improvement in operating margins to 11-11.5% in FY2022 (PY:5.2%) and 14-15% in FY2023. With increased earnings, the TD/OPBIDTA and DSCR are likely to improve from FY2023. The ramp-up in the operations of Trivandrum and Bangalore malls are the key monitorables.

The rating factors in the favourable location of the operational mall in Kochi, 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 amid a residential area with limited competition. 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 rating takes comfort from the strong patronage for LISMPL, being part of Lulu Group, which has vast experience in hospitality, retail and commercial real estate.

The rating is, however, constrained by the vulnerability of the company's mall and retail operations to external factors including the Covid-19 pandemic, which has adversely impacted the financial performance in FY2021 and FY2022. Along with the various forms of discounts/waivers offered to tenants, reduction in sales at Lulu's retail stores adversely affected revenues and profitability, especially in H1FY2022. However, the impact of the third wave is likely to be less severe and the expected recovery in H2FY2022 will support the overall recovery trajectory.

The debt taken towards construction of malls and working capital requirements led to an increase in total debt (excluding lease liability) by 40% to Rs. 1,990.3 crore as on March 31, 2021 (PY: Rs. 1,423.9 crore). Further, the recent sanction of the LRD loan of Rs. 630 crore towards the operational Kochi mall is likely to result in an increase in debt by 44% as on March 31, 2022, leading to a high leverage. However, the LRD loan of fifteen years tenor result in lower principal repayments in the medium term, supporting the coverage metrics. Further, liquidity cushion is available of around Rs. 400 crore from the recently sanctioned LRD loan, which can support near term capex and working capital requirements.

Key rating drivers and their description

Credit strengths

Favourable location of Kochi mall –Lulu Kochi mall, along with Kochi Marriott hotel, is favourably located in Edapally Junction with direct passage from the metro station. This has resulted in near full occupancy of the mall, premium brand participation and robust average monthly lease rental of Rs. 214.5/sq. ft. as on December 2021. Further, Lulu Trivandrum mall is favourably located near Trivandrum International Airport and Technopark, while the Lulu Bengaluru mall is favourably located amid a residential area with limited competition.

Healthy revenue growth expected driven by commencement of operations at two new malls: LISMPL has signed leases for around 55% and 67% of the total area as of December 2021 and is in various stages of lease tie-ups for a considerable portion of the remaining area. The company also operates its own retail format stores including the amusement park, which occupy around 47%, 45% and 45% of the leasable area in Kochi, Bengaluru and Trivandrum malls, respectively. Along with the leasing division, the retail divisions were impacted in FY2021 (decline by 44%) and H1 FY2022 by the Covid-19 pandemic. However, there has been recovery since Q3 FY2022 with footfalls reaching 86% of pre-Covid levels in November 2021 and retails sales surpassing pre-Covid levels at the Kochi mall in November 2021. Further, the impact of the third wave is likely to be less severe. This along with the revenues from new malls is likely to result in an overall increase in revenues by 95-105% in FY2022 and by 85-90% in FY2023, with a consequent improvement in operating margins to 11-11.5% in FY2022 (PY:5.2%) and 14-15% in FY2023. Further, with increased earnings, the TD/OPBIDTA and DSCR are likely to improve from FY2023

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 amounting to Rs. 1,000 crore, against which it has availed a LABOD facility of Rs. 980 crore.

Credit challenges

Disruption in mall and hotel operations due to second Covid-19 wave –The mall and retail operations are vulnerable to external factors including the Covid-19 pandemic, which has adversely impacted the financial performance in FY2021 and FY2022. Along with the various forms of discounts/ waivers offered to tenants, reduction in sales at Lulu's retail stores adversely affected its revenues and profitability, especially in H1FY2022. In H1FY2022, the company has booked a revenue of Rs. 359.8 crore, with an operating margin of 4.0%. The impact of the third Covid-19 wave is likely to be less severe and the expected recovery in H2 FY2022 will support the overall recovery trajectory.

Ramp up in operations of the two new malls critical for improvement in leverage and coverage metrics – The debt taken towards construction of malls and working capital requirements resulted in an increase in the total debt (excluding lease liability) by 40% to Rs. 1990.3 crore as on March 31, 2021 (PY: Rs. 1423.9 crore). Further, the recent sanction of the LRD loan of Rs. 630 crore towards the operational Kochi mall is likely to result in an increase in debt by 44% as on March 31, 2022, resulting in high leverage. However, the LRD loan of fifteen years tenor result in lower principal repayments in the medium term supporting the coverage metrics. Further, liquidity cushion is available of around Rs. 400 crore from the recently sanctioned LRD loan, which can support near term capex and working capital requirements. 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 the ramp up in the operations is critical for improvement in leverage and coverage metrics.

Liquidity position: Adequate

The company has free cash of Rs. 44.6 crore and encumbered cash of Rs. 202.2 crore as on December 31, 2021. It has repayment obligation of Rs. 152.9 crore in FY2023 which can be met from the cash flow from operations. With the recent sanction of LRD loan, it has repaid Rs. 229.6 crore of term loan and the remaining was used to repay the overdraft SBLC account. Consequently, the company has an effective liquidity cushion of Rs. 400.0 crore from the LRD loan. LISMPL has plans to construct 30-40 hypermarkets across the country in the long term. Currently, construction of hypermarket stores in Cochin, Coimbatore and Kottayam are in pipeline, which are to be funded by internal accruals and the recently sanctioned LRD loans.

Rating sensitivities

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

Negative factors – The pressure on the rating can arise in case of a delay in the ramp up of Bengaluru and Trivandrum malls leading to a pressure on revenues and earnings or increase in debt levels resulting in weakening of liquidity, leverage and coverage metrics on a sustained basis. Additionally, DSCR less than 1.1 times on a sustained basis could lead to pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Debt backed by lease rentals Rating methodologies for entities in the Hotel Industry Corporate credit rating methodology in Retail industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Promoted by Mr. Yusuff Ali M.A. and Mr. Ashraf Ali M.A (elder brother of Yusuff Ali), Lulu International Shopping Malls Private Limited was incorporated in the 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 5 star hotel spread over 18,45,000 sq. ft of built up area comprising 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. The company has developed around 5.98 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 a number of international and national brands. The five-star hotel is operated by Marriott Hotels India Pvt. Ltd. under the brand “Kochi Marriott Hotel” as a 5-star deluxe hotel. Following the huge success of the Kochi mall, the company is expanding its operations by constructing a similar format shopping mall at Trivandrum with a 6.31 lakh sq. ft of leasable area, which has started operations from December 2021 and one shopping mall at Bengaluru with 4.62 lakh sq. ft. of leasable area, which started operations from October 2021.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	1298.2	734.6
PAT (Rs. crore)	21.3	-100.5
OPBDIT/OI (%)	14.8%	5.2%
PAT/OI (%)	1.6%	-13.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	6.6
Total Debt/OPBDIT (times)	7.8	69.2
Interest Coverage (times)	2.9	0.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument		Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Jan 31, 2022	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					March 11, 2022	Dec 03, 2020	Apr 09, 2020	Aug 01, 2019	-
1	Term Loan	Long term	1630.75	1450.22	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)	-
2	Fund-based – Working Capital Facilities	Long term	190.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)	-
3.	Non-fund Based – Working Capital Facilities	Long term	20.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)	-
4.	Unallocated	Long term	9.25	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term loan	Simple
Fund-based Facilities	Simple
Non-fund Based 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: www.icra.in

Annexure-1: Instrument details

Bankers Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan – LRD	Jan-2022		Jan 2037	630.00	[ICRA]BBB+ (Positive)
-	Term Loan – 2	Sept 2019	-	Sept 2025	620.75	[ICRA]BBB+ (Positive)
-	Term Loan – 3	Sept 2019	-	Jun 2028	380.00	[ICRA]BBB+ (Positive)
-	Fund-based facilities	-	-	-	190.00	[ICRA]BBB+ (Positive)
-	Bank Guarantee	-	-	-	20.00	[ICRA]BBB+ (Positive)
-	Unallocated	-	-	-	9.25	[ICRA]BBB+ (Positive)

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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