

September 27, 2024

## 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 Loans	945.0	945.0	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	945.0	945.0	

\*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, with a good catchment area, resulting in healthy footfalls. The mall operations commenced in July 2022. The company witnessed healthy ramp-up in occupancy of 94% (84% as of May 2023) for the leasable area earmarked for retail operations of non-Group entities as of May 2024. Its revenues are estimated to be around Rs. 600-650 crore in FY2025. ICRA expects the Group company, Lulu International Shopping Mall Private Limited (Lulu International, [ICRA]BBB+ (Stable)) to extend timely support to LISMPL, in case of any cash flow mismatches, given the close business, financial and managerial linkages.

The rating, however, is constrained by the estimated modest debt service coverage ratio (DSCR) in FY2025 as the retail division is yet to ramp-up, along with high debt repayments. However, the track record of financial support from Lulu International provides comfort. The company maintains debt servicing reserve account (DSRA) for three months of principal and interest obligation. Further, the company is in the process of refinancing its outstanding loan with a long tenor loan with low repayments in the initial years, which is expected to support the ramp-up phase and result in improvement of coverage metrics.

Further, LISMPL is likely to face stiff competition from the existing malls in the city. Nevertheless, 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. The rating considers the exposure of LISMPL's revenues to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles. The rating also notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

The outlook on the rating is Stable, supported by ICRA's expectation of ramp-up in retail division operations in the medium term and expected improvement in debt protection metrics.

### 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, had 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.

**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, resulting in healthy footfalls for the mall. The company started mall operations

in July 2022. It witnessed healthy ramp-up in occupancy of 94% (84% as of May 2023) for the leasable area earmarked for retail operations of non-Group entities as of May 2024. The revenues are estimated to be around Rs. 600-650 crore in FY2025.

### Credit challenges

**Modest debt coverage metrics** – The company’s estimated DSCR is expected remain modest in FY2025 as the retail division is yet to ramp-up, along with high debt repayments. However, the track record of financial support from Lulu International provides comfort. The company maintains DSRA for three months of principal and interest obligation. Further, it is in the process of refinancing its outstanding loan with a long tenor loan with low repayments in the initial years, which is expected to support the ramp-up phase and result in improvement of coverage metrics.

**Competition from existing and upcoming retail malls** – LISMPL is likely to face stiff competition from the existing malls in the city. However, the high patronage enjoyed by Lulu’s own retail outlets including its amusement division (Funtura) and the 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, which could impact the tenant’s business risk profiles. The rating also notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

### Liquidity position: Stretched

The company’s liquidity is stretched with free cash and bank balance of Rs. 4.8 crore as of March 2024. During the initial years, the debt repayment obligations will be met through the cash flow from operations and support from group companies, if required.

### Rating sensitivities

**Positive factors** – The rating could be upgraded in case of a significant increase in revenues and profitability, backed by ramp-up of the retail store performance resulting in improvement in debt protection 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** – Sustained delay in ramp-up of operations of the retail store performance in Lulu Lucknow mall or inability to refinance the outstanding term loan may result in rating downgrade. Further, any significant increase in indebtedness or lack of timely support or weakening of the credit profile of Lulu International Shopping Mall Private Limited would be a credit negative.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Retail Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)</a>
Parent/Group support	Group company – Lulu International Shopping Malls Private Limited The rating factors in the expected timely 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 1.7 msf consisting of a carpet area of 0.75 msf and parking area of 0.71 msf. Lulu's own retail outlets occupy around 0.33 msf (44.0%), which will be the major anchor stores for the mall and the remaining space of 0.37 msf (56%) is let out on lease. The mall became operational from July 2022.

## Key financial indicators

LISMPL Standalone	FY2023	FY2024
	Audited	Provisional
Operating income	349.6	547.8
PAT	-147.7	-100.7
OPBDIT/OI	11.6	17.8%
PAT/OI	-42.3%	-18.4%
Total outside liabilities/Tangible net worth (times)	-185.0	-16.8
Total debt/OPBDIT (times)	38.6	16.0
Interest coverage (times)	0.4	0.7

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore. 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	Type	Current (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs Crore)	Date	FY2024		FY2023		FY2022		
				Rating	Date	Rating	Date	Rating	Date	
Term loans	Long Term	945.00	27-Sep-2024	[ICRA]BBB (Stable)	20-Jun-2023	[ICRA]BBB (Stable)	20-May-2022	[ICRA]BBB (Stable)	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	October 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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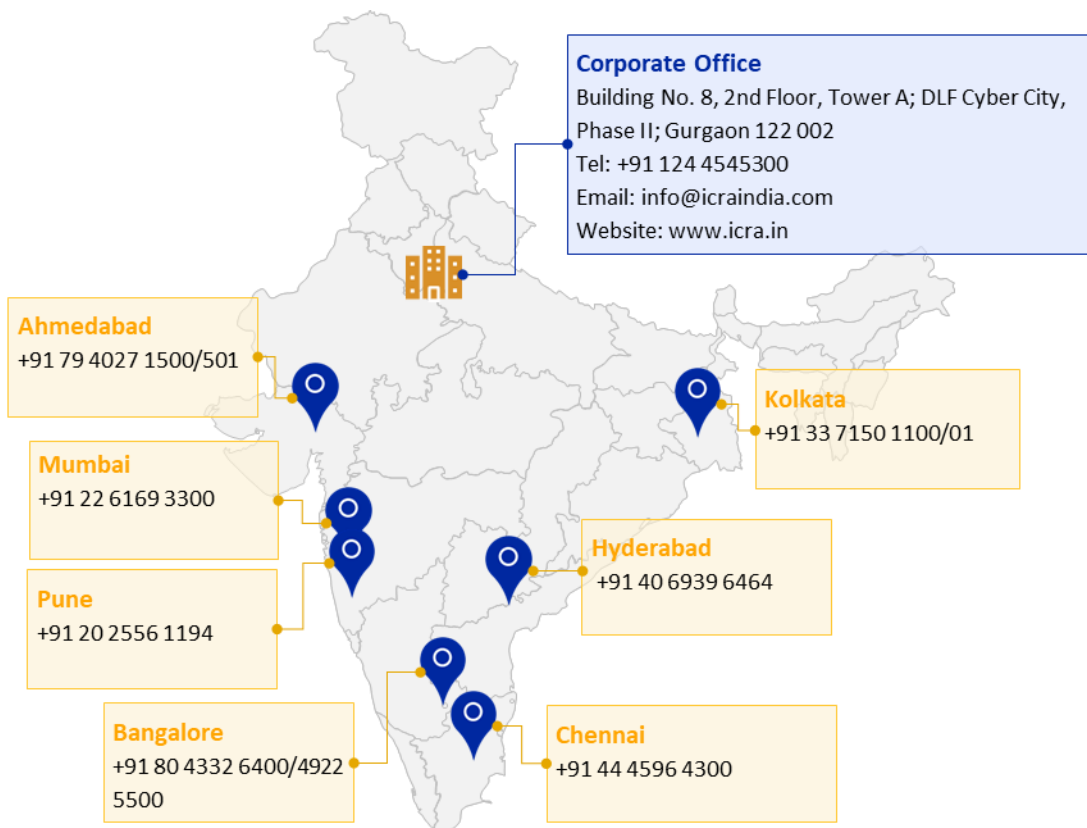
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