September 27, 2024

Lulu International Shopping Malls 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	2959.42	3148.90	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based – Working capital facilities	650.00	788.60	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Non-fund based – Working capital facilities	145.00	20.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Unallocated	203.08	0.00	-
Total	**3957.5**	**3957.5**	

**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 rating reaffirmation for LISMPL factors in the favourable location of the existing malls (Lulu Kochi Mall, Lulu Trivandrum, Lulu Bengaluru and Lulu Hyderabad Mall), thereby having healthy occupancy levels of above 95% for the leasable area earmarked for retail operations of non-Group entities as of May 2024. The company operates its own retail format stores and amusement park in these four malls, which occupy around 45%-62% of the total area. 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 consolidated revenues of LISMPL witnessed healthy revenue increase by 35% YoY to Rs. 4,384.8 crore in FY2024, driven by ramp-up in performance of the existing malls/hypermarkets as well as opening of one new mall (Lulu Mall, Hyderabad) and the hypermarkets in FY2024. With ramp-up in operations and expected addition of new hypermarkets, the company's revenue are projected to improve further by 30-35% in FY2025 and operating margins are likely to be in the range of 15.0-16.0% (14.6% in FY2024).

Launched in July 2022, the Lulu Lucknow Mall (with total leasable area of Rs. 0.75 msf) is being operated by the group company, Lulu India. The mall witnessed healthy ramp-up in occupancy to 94% (84% as of May 2023) for the leasable area earmarked for retail operations of non-Group entities as of May 2024. With the retail division yet to ramp up and along with high debt repayments, the debt servicing obligations of Lulu India during the initial years will be met through its cash flow from operations and support from group companies (primarily from LISMPL), if required.

The company has large capex plans of Rs. 500-550 crore in FY2025 and Rs. 600-650 crore in FY2026 towards new hypermarkets and malls, which is expected to be largely debt funded. This along with the high working capital requirements of the retail division is estimated to keep the debt levels elevated and the leverage is likely to remain high with modest debt coverage in FY2025 and FY2026.

Notwithstanding the Group's significant experience in operating retail malls, the company's ability to ramp-up the operations of hypermarkets are critical for improvement in leverage and coverage metrics in the medium term. 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.

The Stable outlook on LISMPL's rating reflects ICRA's opinion that the company will be supported by healthy revenue growth, backed by expected ramp-up of the existing assets as well as upcoming hypermarkets and favourable location of the assets.

Key rating drivers and their description

Credit strengths

Healthy increase in revenues driven by existing and new malls; expected to further ramp-up in near to medium term – The consolidated revenues of LISMPL witnessed healthy revenue increase by 35% YoY to Rs. 4,384.8 crore in FY2024, driven by ramp-up in performance of the existing malls/hypermarkets as well as opening of one new mall (Lulu Mall, Hyderabad) and hypermarkets in FY2024. With ramp-up in operations and expected addition of new hypermarkets, the company's revenues are projected to improve further by 30-35% in FY2025 and operating margins are likely to be in the range of 15.0-16.0% (14.6% in FY2024).

Favourable location of 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 located near Trivandrum International Airport and Technopark, while the Lulu Bengaluru Mall is situated in Rajaji Nagar with limited competition. The recently, opened Lulu Mall, Hyderabad (opened in September 2023) is located in Kukatpally and is well connected to the other parts of the city. As a result, these malls have healthy occupancy levels of above 95% for the leasable area earmarked for retail operations of non-Group entities as of May 2024. The company also operates its own retail format stores and amusement park in these four malls, which occupy around 45%-62% of the total area.

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 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.

Credit challenges

Large debt-funded capex plans to result in high leverage and modest coverage metrics – The company has large capex plans of Rs. 500-550 crore in FY2025 and Rs. 600-650 crore in FY2026 towards new hypermarkets and malls, which is expected to be largely debt funded. This along with the high working capital requirements of the retail division is estimated to keep the debt levels elevated and the leverage is likely to remain high with modest debt coverage in FY2025 and FY2026. Notwithstanding the Group's significant experience in operating retail malls, the company's ability to ramp-up 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, 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: Adequate

On a standalone basis, the company has free cash of Rs. 152.5 crore as on August 31, 2024. It has scheduled repayment obligation of Rs. 548 crore in FY2024. However, the company plans to refinance the existing loans partly with long tenor loans. The debt obligations are expected to be met through estimated cash flow from operations. It is planning to undertake a capex of Rs. 500-550 crore capex in FY2025 towards new hypermarkets and mall, which is likely to be largely funded from debt.

Rating sensitivities

Positive factors – The rating can be upgraded in case of significant improvement in revenues and profitability, supported by healthy ramp-up in 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 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	[Retail](#) [Corporate Credit Rating Methodology](#) [Realty - Lease Rental Discounting (LRD)](#) [Hotels](#)
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 (elder 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. Commenced in March 2013, the company operates Lulu Kochi Mall in Kochi with carpet area of 0.6 msf, of which 0.28 msf of carpet area is used by 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 mall is leased out to a number of international and national brands. In addition, it operates a five-star hotel, Kochi Marriot Hotel, in partnership with Marriot Hotels India Pvt Ltd in Kochi.

Following the success of the Kochi mall, the company expanded its operations by constructing a similar format shopping mall at Trivandrum with a 0.63 msf of leasable area, which has started operations from December 2021 and a shopping mall at Bengaluru with 0.46 msf of leasable area, which started operations from October 2021. It has expanded its portfolio by taking on lease the existing Manjeera Mall in Hyderabad in September 2023. Furthermore, the company has developed multiple retail hypermarkets in cities such as Coimbatore, Thriprayar, Bengaluru, Palakad, Calicut, Lucknow, etc.

Key financial indicators

Consolidated	FY2023	FY2024*
Operating income	3243.4	4384.8
PAT	-205.8	-130.2
OPBDIT/OI (%)	14.4%	14.6%
PAT/OI (%)	-6.3%	-3.0%
Total outside liabilities/Tangible net worth (times)	31.8	97.0
Total debt/OPBDIT (times)	12.5	10.0
Interest coverage (times)	1.2	1.4

*Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.; * Provisional; PAT: Profit after tax; OPBIDT: Operating profits before depreciation, interest and tax.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	3148.90	Sep 27, 2024	[ICRA]BBB+ (Stable)	June 20, 2023	[ICRA]BBB+ (Stable)	-	-	11-MAR-2022	[ICRA]BBB+ (Positive)
Fund-based - Working capital facilities	Long Term	788.60	Sep 27, 2024	[ICRA]BBB+ (Stable)	June 20, 2023	[ICRA]BBB+ (Stable)	-	-	11-MAR-2022	[ICRA]BBB+ (Positive)
Non-fund based - Working capital facilities	Long Term	20.00	Sep 27, 2024	[ICRA]BBB+ (Stable)	June 20, 2023	[ICRA]BBB+ (Stable)	-	-	11-MAR-2022	[ICRA]BBB+ (Positive)
Unallocated	Long Term	0.00	-	-	June 20, 2023	[ICRA]BBB+ (Stable)	-	-	11-MAR-2022	[ICRA]BBB+ (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – Working capital facilities	Simple
Long-term – Non-fund based – Working capital facilities	Very 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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2020	-	FY2036	3148.90	[ICRA]BBB+ (Stable)
NA	Fund-based - Working capital facilities	-	-	-	788.60	[ICRA]BBB+ (Stable)
NA	Non-fund based - Working capital facilities	-	-	-	20.00	[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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