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## IPO NOTE

# Nexus Select Trust

## A proxy to ride the consumption wave

**Nexus Select Trust (NEXUS) is India's first retail focussed REIT offering an opportunity to capitalize on the consumption wave in India. With a portfolio of 17 high quality urban consumption centres (UCCs) spread across 14 major cities with a total leasable area of 9.18 mn sqft, NEXUS remains at the forefront to be a key beneficiary of increased penetration of organized retail. These UCCs have a balanced mix of domestic and international brands spread across various trade categories such as apparels, F&B, entertainment, electronics etc. Additionally, NEXUS has a high tenant retention rate, with ~75% of leases from FY20-9MFY23 coming from existing clients. Rental income from a retail mall has a mix of fixed (larger share) and variable components. Variable component is linked to tenant turnover/ consumption whereas fixed component is in the form of minimum guarantee. Thus, rental income has an upside linked to consumption growth in the mall. At upper price band of INR100 per unit, REIT will have a pre-tax yield of 8.25%. In addition, the offer price presents a significant discount to the NAV. We recommend Subscribe.**

### A pure play proxy for consumption growth in India

Consumption growth in India is a secular trend which is expected to play out over a long term provided India's (1) growing middle class (15% CAGR over FY10-FY20) (2) rising income levels driving higher discretionary spends (4) favourable demography (74% of population below 45 years age) and (5) Rising urbanization. In our view, retail malls remain one of the best proxies to play the consumption growth in India which is a structural megatrend.

### Presence across key consumption hubs; Strong brand partnership

NEXUS owns and manages 17 high-quality (across 14 cities), international-standard shopping destinations in prime locations with good transport links, providing a top-notch shopping experience. They have seen higher growth in rental income compared to their submarkets and own some of the largest UCCs in their respective areas, serving consumers from multiple cities. They have strong relationships with key retailers in India and actively manage the tenant mix to provide the best experience to consumers. They focus on bringing in new brands that can boost footfalls, sales, and rents, including omni-channel retailers, and their top tenants contribute only a small percentage of gross rentals indicating low tenant concentration risk. Thus, NEXUS provides a well-diversified portfolio of quality assets to brands looking to make their presence across key consumption hubs of India.

### Business with high entry barriers and specialized skillsets

NEXUS's retail assets are situated in the city centric locations on huge land parcels that are very difficult to acquire and is a capital intensive business model. The portfolio has 17 top-quality retail hubs covering 9.18 mn sqft making them the market leader in India. Additionally, these assets require expertise in leasing, operations, retailer management, marketing, and promotion. We believe mall management is a specialized skill set that is built over time and NEXUS is one of those who has cracked it right.

#### IPO issue details

Opening Date	09-May-23
Closing Date	11-May-23
Price Band (INR)	95-100
Fresh Issue (units) *	140
Offer for sale (units) *	180
Issue size (INR bn)	32
Post Issue Mcap (INR bn) ^	151.5

^ est. basis market intelligence,

\* at upper price band

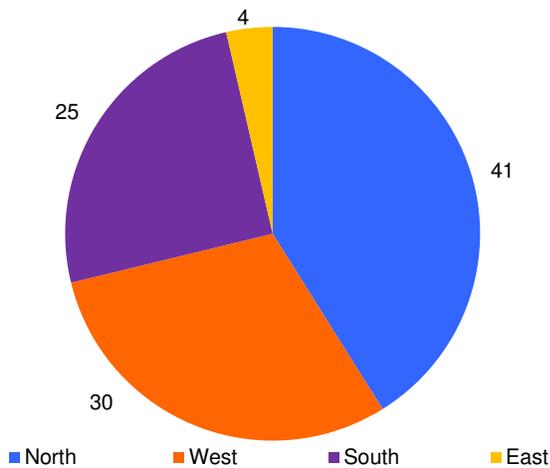
## Company Snapshot

**Nexus Select Trust REIT (NEXUS)** is the owner of India’s leading Urban Consumption Centres (UCCs) platform of high-quality assets that serve as essential consumption infrastructure for India’s growing middle class. Nexus will be the 1st publicly listed retail REIT in India.

As of December 31, 2022, the Portfolio includes 17 top-quality Grade A UCCs covering a total leasable area of 9.2 mn sq ft., along with 2 complementary hotel assets featuring 354 keys and 3 office assets with 1.3 mn sq ft. These assets are strategically situated across 14 of India’s prominent cities, which accounted for 30% of India’s overall discretionary retail spending in FY20.

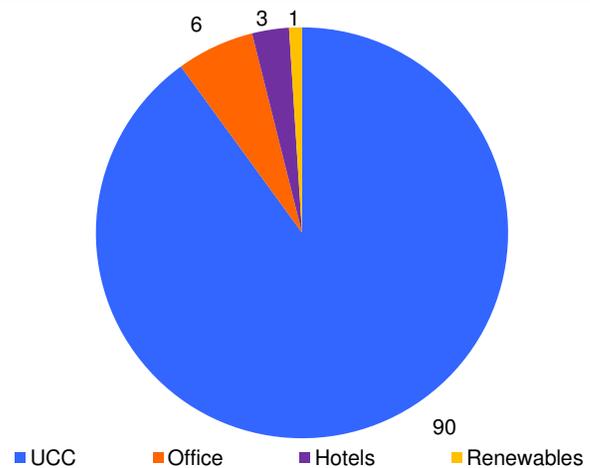
The portfolio of NEXUS features a tenant base of 1,044 domestic and international brands, occupying 2,893 stores. The portfolio is well diversified across various cities, with no single asset or tenant contributing more than 18.3% and 2.8%, respectively, to the total gross rentals for that month.

**Exhibit 1: Geographic split of assets (by market value)**



Source: Company, Antique

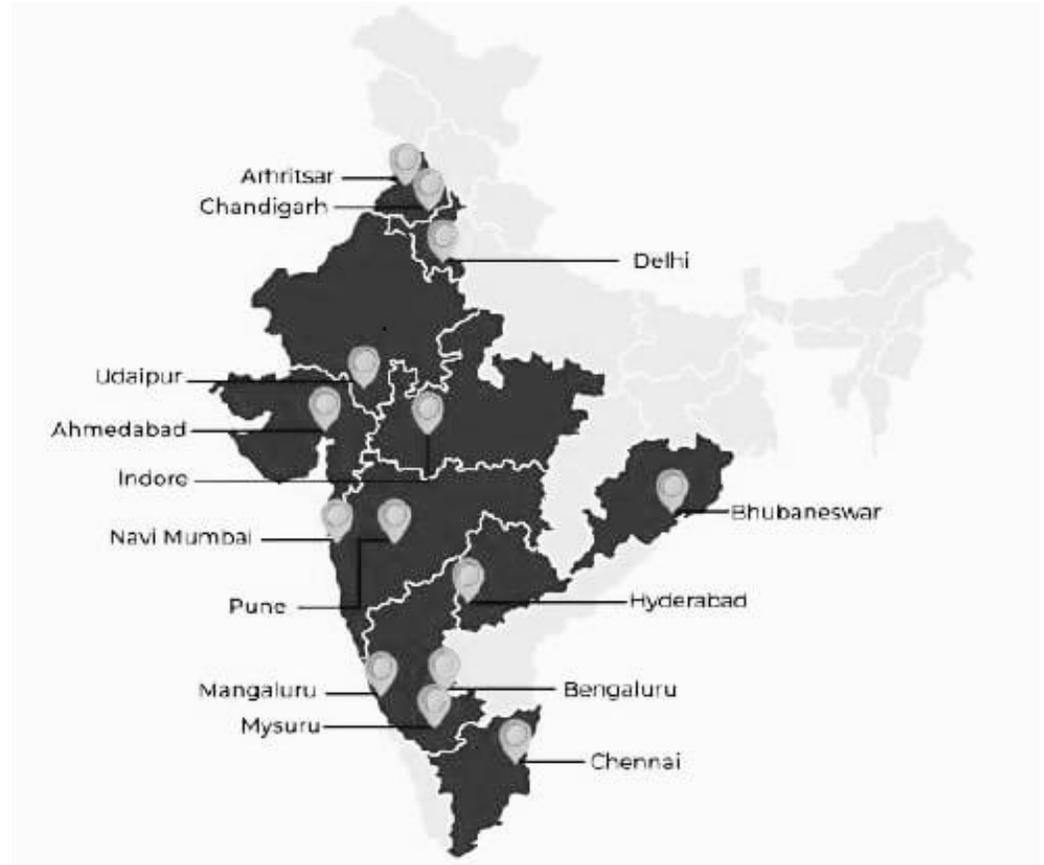
**Exhibit 2: Market value by asset**



Source: Company, Antique

- NEXUS is sponsored by a company owned by Blackstone, a global investment firm with ~USD 975 bn of assets under management. Blackstone’s real estate business, founded in 1991, manages ~USD 326 bn of assets across the Americas, Europe, and Asia. The business has experience in building and taking companies public, including Hilton Worldwide Holdings Inc. and Invitation Homes Inc., and has participated in India’s first two REITs.

**Exhibit 3: NEXUS's UCC presence across India**



Source: Company, Antique

**Exhibit 4: NEXUS portfolio value as on 31<sup>st</sup> Dec'22**

<b>Urban Consumption Centres</b>	<b>TLA (mn sqft)</b>	<b>Committed occupancy (%)</b>	<b>M.Value (INR mn)</b>	<b>% of Gross PF value</b>	<b>WALE (Yrs)</b>
Select Citywalk	0.51	98.8%	45,519	19%	4.9
Nexus Elante	1.25	99.4%	38,672	16%	5.5
Nexus Seawoods	0.97	99.0%	22,169	9%	7.1
Nexus Ahmedabad One	0.88	96.4%	19,561	8%	6.0
Nexus Hyderabad	0.83	98.8%	16,896	7%	4.2
Nexus Koramangala	0.30	97.8%	8,352	4%	3.3
Nexus Vijaya	0.65	99.4%	12,565	5%	4.2
Nexus Westend	0.44	95.9%	8,444	4%	7.8
Nexus Esplanade	0.42	97.0%	8,617	4%	7.7
Nexus Amritsar	0.54	97.2%	6,326	3%	6.7
Nexus Shantiniketan	0.41	97.3%	5,953	3%	6.9
Nexus Whitefield	0.31	94.7%	3,681	2%	4.7
Nexus Celebration	0.40	94.6%	4,557	2%	5.0
Fiza by Nexus	0.49	71.7%	2,881	1%	5.1
Nexus Centre City	0.33	97.8%	2,714	1%	6.7
Nexus Indore Central	0.24	90.4%	2,007	1%	13.7
<b>Portfolio Investment</b>					
Treasure Island	0.21	96.8%	2,552	1%	5.1
<b>Subtotal Urban Consumption Centres</b>	<b>9.18</b>	<b>96.2%</b>	<b>2,11,466</b>	<b>90%</b>	<b>5.7</b>
<b>Offices</b>	<b>TLA (mn sqft)</b>	<b>Office occupancy</b>	<b>M.Value (INR mn)</b>	<b>% of Gross PF value</b>	<b>WALE (Yrs)</b>
Westend Icon Offices	0.98	74.9%	11,442	5%	3.5
Vijaya Office	0.19	100.0%	1,823	1%	3.2
Elante Office	0.09	75.1%	1,059	0%	4.6
<b>Total offices</b>	<b>1.26</b>	<b>78.7%</b>	<b>14,324</b>	<b>6%</b>	<b>3.6</b>
<b>Hotels</b>	<b>Total Keys</b>	<b>Hotel Occupancy</b>	<b>M.Value (INR mn)</b>	<b>% of Gross PF value</b>	<b>WALE (Yrs)</b>
Hyaat Regency Chandigarh	211.00	66.2%	4,908	2%	-
Oakwood Residences, Benagluru	143.00	73.0%	1,882	1%	-
<b>Total offices</b>	<b>354</b>	<b>69.0%</b>	<b>6790</b>	<b>3%</b>	<b>-</b>
<b>Hotels</b>	<b>Capacity (MW)</b>	<b>Hotel Occupancy</b>	<b>M.Value (INR mn)</b>	<b>% of Gross PF value</b>	<b>WALE (Yrs)</b>
Karnataka Solar Power	15.00	-	2,413	1%	-
<b>Total Portfolio</b>			<b>2,34,993</b>	<b>100%</b>	

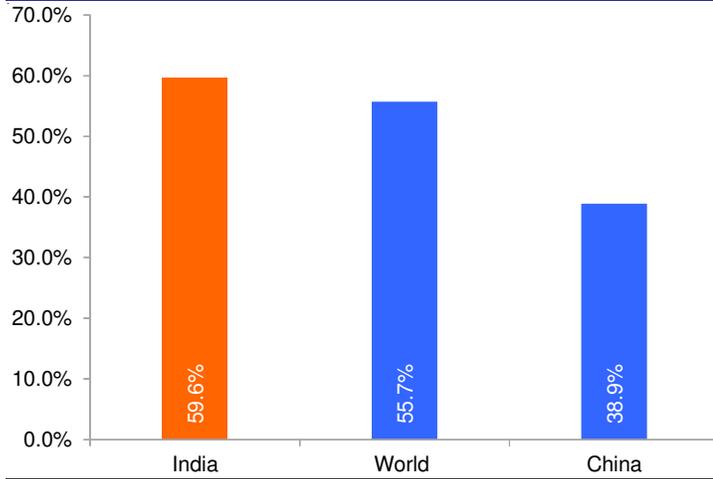
Source: Company, Antique

## Investment rationale

### A pure play proxy to play India consumption story

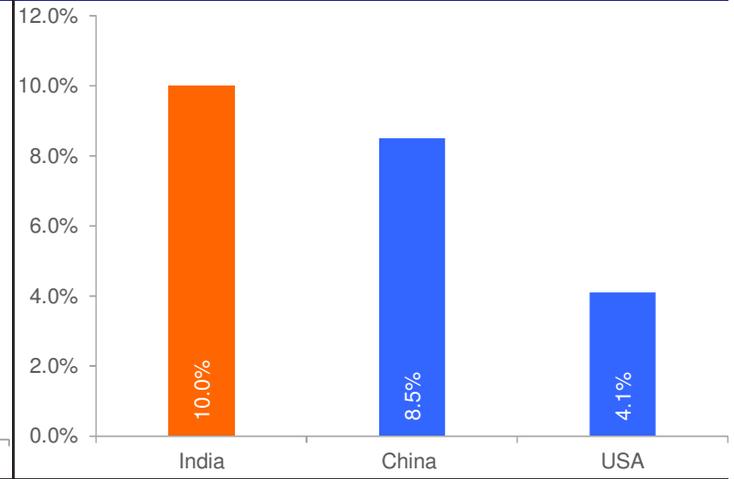
- India is among the fastest-growing major economies globally, and consumption is a key driver of its economy. It accounted for ~60% of India's GDP in FY22, and registered a CAGR of 10% over CY14-21.
- The consumption megatrend in India is propelled by a relatively young population (over 74% of India's population is under 45 years old) and a growing middle class (14.8% CAGR between FY10 and FY20).
- India has experienced a rapid increase in urbanization over the past 20 years, with people moving from rural to urban areas in search of better economic opportunities and employment outside of agriculture. The urban population has grown at a rate of 2.5% per year, reaching 493 mn in CY21. This trend is expected to continue, with urban areas predicted to house 50% of India's population by CY50, up from 35% in 2021.
- As the owner of India's largest UCC platform with a leading market presence in 14 major cities across the country, NEXUS is well-positioned to capitalize on the consumption growth driven by these megatrends.
- NEXUS owns 17 high-quality UCCs, making them India's largest retail platform. Their pan-India portfolio is well-diversified and strategically located in prime in-fill areas of these 14 cities, which accounted for 30% of India's discretionary retail spending in FY20. These cities also had an average population CAGR that was ~225 bps higher than the national average from FY11 to FY21.
- The quality and scale of NEXUS's portfolio, coupled with their industry-leading active asset management, make them a preferred option for domestic and multinational retailers and consumers. They have maintained high levels of committed occupancy and witnessed strong rent growth (122 bps higher Marginal Rents CAGR across their portfolio from CY16 to CY19 than the Portfolio Markets) and robust tenant sales growth (11% CAGR in tenant sales from FY18 to FY20).

**Exhibit 5: Consumption as % of GDP**



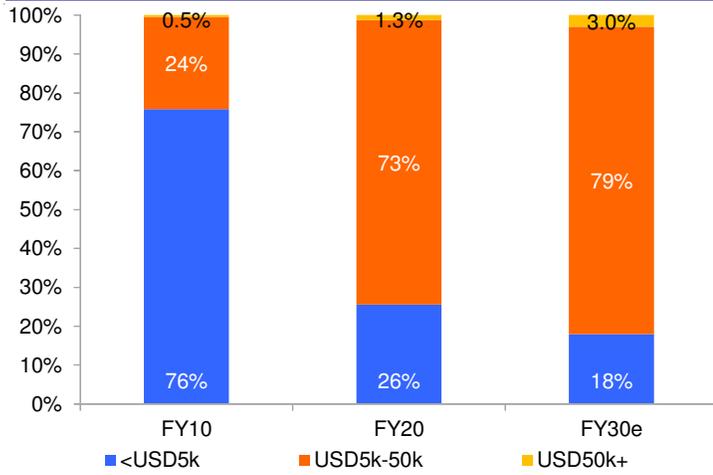
Source: Company, Antique; Note: The data is based on CY21

**Exhibit 6: Consumption growth**



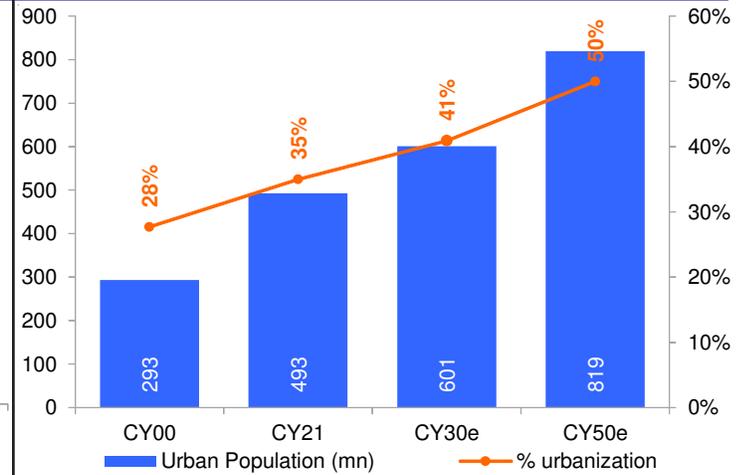
Source: Company, Antique; Note: CAGR is considered over CY14-21

**Exhibit 7: Rising middle class**



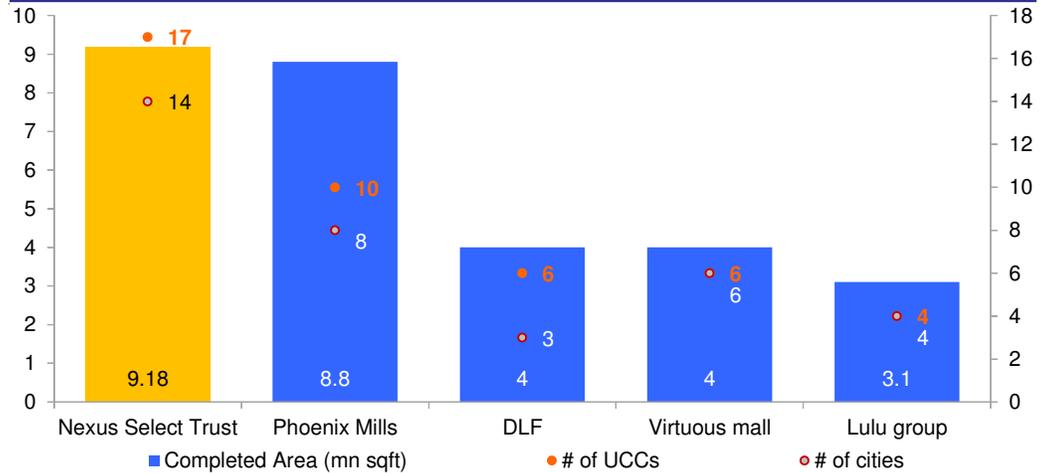
Source: Company, Antique

**Exhibit 8: Rising urbanization**



Source: Company, Antique

**Exhibit 9: NEXUS is India's largest owner of operational retail malls**

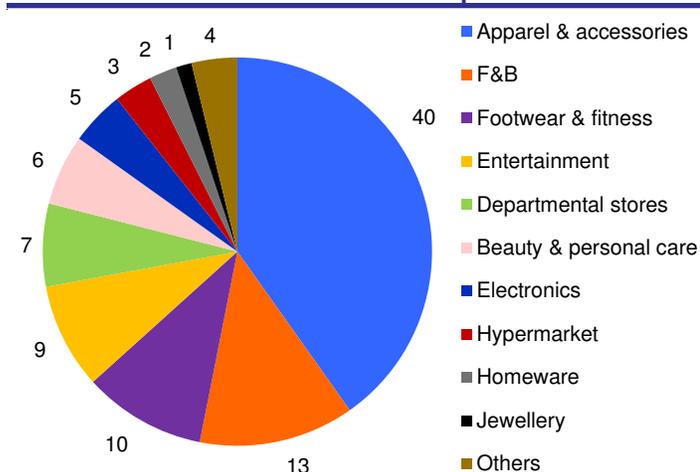


Source: Company, Antique

### Presence across key consumption hubs; Strong brand partnership

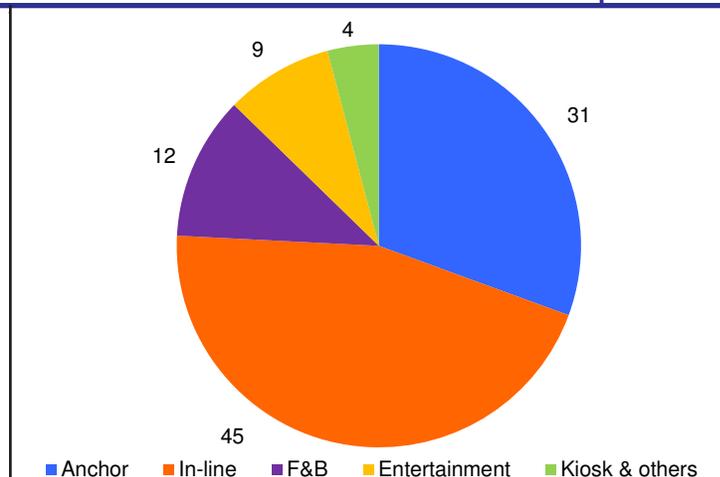
- NEXUS owned UCCs are developed and managed to international standards, making them a preferred option for retailers. These assets are located in prime locations with connectivity to local transport systems, and due to their scale and quality, they provide a high-quality shopping experience.
- The company’s assets have seen a 122 bps higher CAGR in Marginal Rents compared to their respective submarkets. Some of the assets are the largest UCC in their respective submarkets, serving consumers from multiple cities. For eg. **Select Citywalk** (Delhi) is among India’s most successful UCC with the highest tenant sale per sqft. Some of these assets serve as regional shopping centers; for eg. Nexus Elante in Chandigarh is the largest UCC in the Punjab region, and Nexus Ahmedabad One serves consumers from Ahmedabad and satellite towns.
- Nexus owns high-quality retail destinations that offer a complete shopping, entertainment and socializing experience, with modern facilities and ample parking. They hold consumer outreach events to drive footfalls and retail spending. Some of their properties are mixed-use, with hotels and office spaces that complement the retail destinations. The company owns two hotels managed by global operators and three office assets leased by leading multinationals, which drive incremental footfalls and tenant sales.
- The company provides a complete shopping, dining and entertainment experience and is preferred by domestic and international brands in India. The company added 165 F&B brands in the 3 years and upgraded eight food courts. They focus on bringing in new brands that can boost rents, sales, and footfalls, including omni-channel retailers. **The top ten tenants contribute only 20.2% of Gross Rentals, and no single tenant contributed more than 2.8% in the month ended December 31, 2022.**
- The company has strong relationships with key retailers in India and maintains regular communication with them through a dedicated tenant relationship management program. As a result, 74.7% of leased space over FY20-9MFY23 was leased to existing tenants, and same-store committed occupancy levels have remained high and stable. The company actively manages the tenant mix to provide the best shopping experience to consumers. The company actively seeks new domestic and international brands to add to its properties, and most recent leases include performance covenants that allow the company to end leases if tenants don’t perform well.

Exhibit 10: Gross rentals – Tenant wise split



Source: Company, Antique

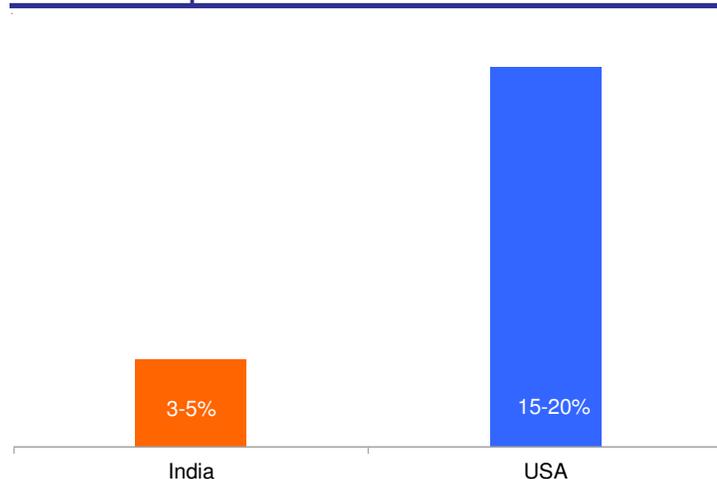
Exhibit 11: Gross rentals - Anchor vs in line tenant split



Source: Company, Antique

- In India, leases for Grade A urban consumption centers are typically on a “warm shell” basis, meaning landlords only incur TI capex of 3.0% to 5.0% of NOI. In comparison, tenants incur significant costs, often equivalent to four to five years of rent. This results in tenant “stickiness” and enhances NOI to cash flow conversion for urban consumption centers in India. This is a favorable comparison to other markets where landlords are expected to incur significant TI capex to attract and retain tenants.

**Exhibit 12: TI capex as % of NOI**



Source: Company, Antique

**Exhibit 13: Brands opening their first few stores in India in a Nexus UCC**

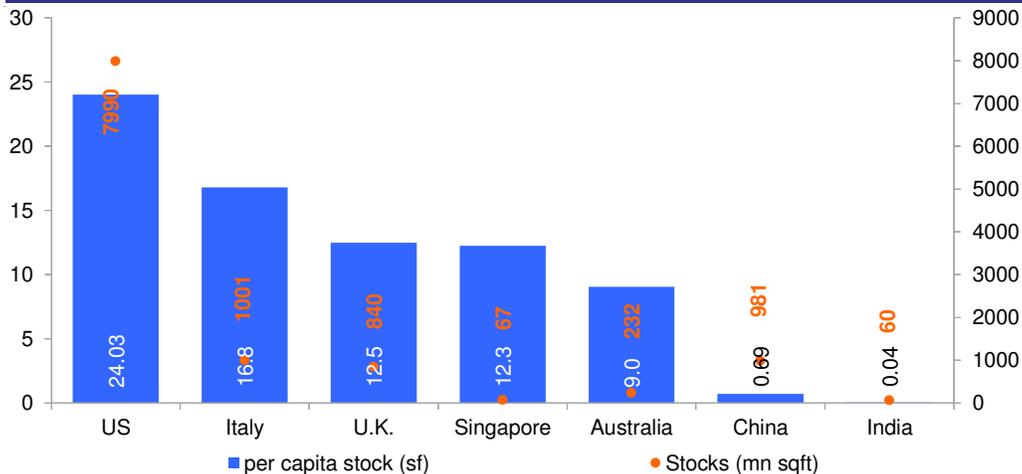


Source: Company, Antique

**High barriers to entry limits competition; favourable rental structure and tenant retention**

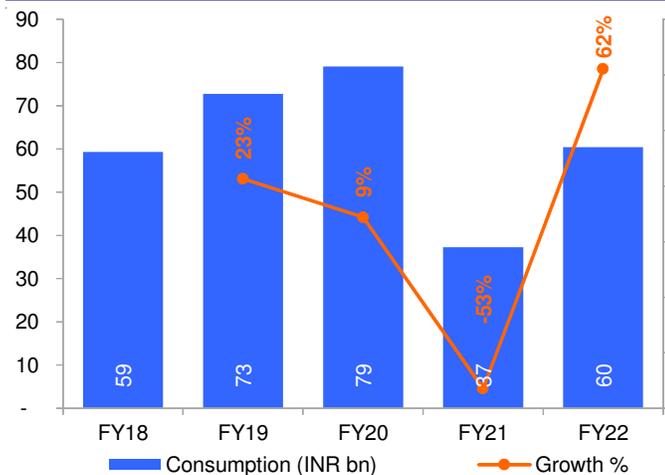
- In India, developing large retail assets is challenging due to limited availability of land, long gestation periods, and specialized capabilities required to stabilize large UCCs projects. Higher land use considerations in city-centre locations and floor area ratio limitations also limit the supply of large UCC projects. Even after development, these assets require expertise in leasing, operations, retailer management, marketing, and promotion, which only a few operators in India possess.
- Demand for high-quality retail space in India is strong, with both domestic and international brands looking to establish and expand their presence in the country. Historically online-only brands have also pivoted towards an omni-channel strategy and expanded their physical retail presence. UCCs are a preferred destination for organized retailers due to the limited supply of high-quality retail space in the country. Despite strong demand, there are only ~100 Grade A UCCs in India, resulting in one of the lowest per capita stock of such centres among major economies.
- In addition to the minimum guaranteed rentals, NEXUS has turnover share model that ties rent to the sales generated by tenants, allowing them to benefit from increased tenant sales. As of Dec’ 22, ~88% of the leases included turnover rental agreements. In FY22, ~9% of the total revenue from operations came from revenue sharing component.
- The average monthly rent for NEXUS’s UCCs is INR122 per sqft, while the current market rent stands at INR142 per sqft, indicating a mark to market potential of 16% which can drive growth going ahead.

**Exhibit 14: India has the lowest per capita stock of retail malls (UCCs) amongst major economies**



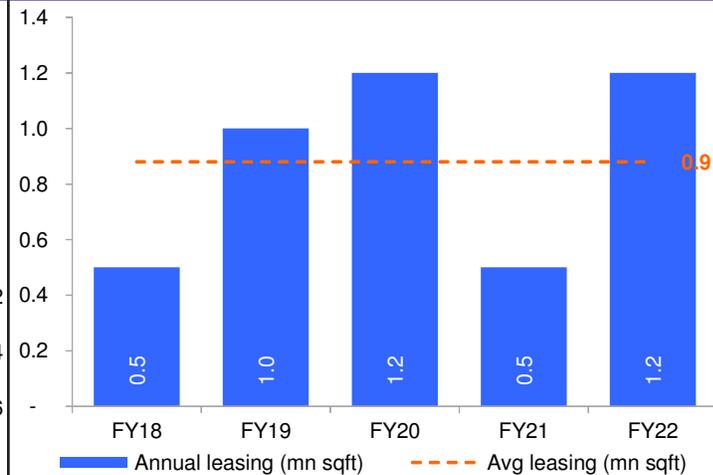
Source: Company, Antique

**Exhibit 15: Tenant sales (consumption) trend**



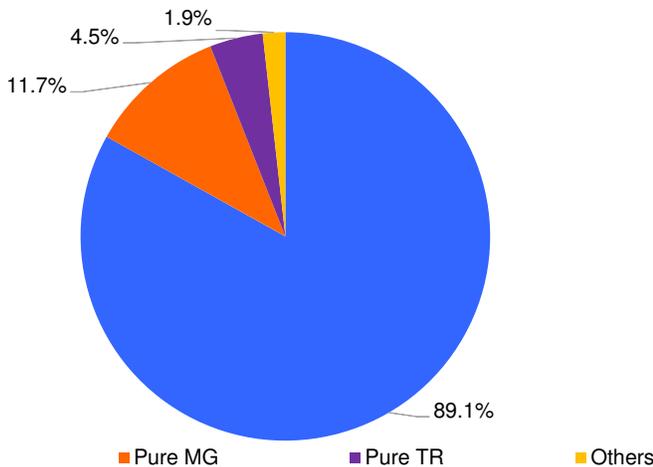
Source: Company, Antique

**Exhibit 16: Annual leasing trend**



Source: Company, Antique

**Exhibit 17: Rental structure split (as on Dec'22)**



Source: Company, Antique

Note: MG is Minimum Guarantee, TR is Turnover Rentals

## Management overview

- **Dalip Sehgal (Non-Independent Director and Chief Executive Officer):** Mr. Sehgal holds a bachelor's degree in arts and a master's degree in business administration from the University of Delhi. He has more than 40 years of work experience and has held several high-level positions in various companies, including WRPL (Westerly Retail Private Limited), Hindustan Lever Limited, Godrej Consumer Products Limited, Godrej Hershey Foods & Beverage Limited, and Graviss Holdings Private Limited. He was the CEO of WRPL from 2018 to 2022.
- **Jayen Naik (Chief Operations Officer):** Mr. Naik has managed the portfolio assets owned by the sponsor group since their acquisition. Naik holds a bachelor's degree in science and an MBA from B.K. School of Business Management, Gujarat. He has over 20 years of work experience and has previously worked with Adani Retail Limited as head-operations, Aditya Birla Group as general manager-operations, and Vadilal Industries Limited as assistant manager-export division.
- **Nirzar Jain (Chief Leasing Officer):** Mr. Jain holds a diploma in hotel management & catering technology from the National Council for Hotel Management and Catering Technology, New Delhi, and has completed a senior management program from the Indian Institute of Management Calcutta. He has over 24 years of work experience and has managed over 22 urban consumption centers. Jain has previously worked with Inorbit Malls (India) Private Limited as senior manager-operations, Kalpataru Retail Ventures Private Limited as assistant general manager-Malls, Oberoi Realty (Kingston Property Services Ltd) as vice president-mall, and Lake Shore India Management Private Limited as head-leasing, digital initiatives & research.
- **Rajesh Deo (Chief Financial Officer):** Deo holds a bachelor's degree in commerce from Utkal University and has completed a general management program for Asia from Indian School of Business and National University of Singapore's Business School. He is an associate member of the Institute of Chartered Accountants of India and has over 20 years of work experience. He has previously worked with WRPL as its CFO, Microsoft Corporation (India) Private Limited as a controller, and Nokia India Private Limited as a business controller.

## Financials

### Profit and loss account (INR mn)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
<b>Net Revenue</b>	<b>16,220</b>	<b>9,070</b>	<b>13,182</b>	<b>14,631</b>
Op. Expenses	6,310	4,349	5,405	5,642
<b>EBITDA</b>	<b>9,910</b>	<b>4,720</b>	<b>7,777</b>	<b>8,990</b>
Depreciation	2,614	2,513	2,429	1,749
<b>EBIT</b>	<b>7,296</b>	<b>2,207</b>	<b>5,348</b>	<b>7,241</b>
Other income	862	1,410	803	352
Interest Exp.	5,600	5,535	5,240	4,212
Extra Ordinary Items -gain/(loss)	-	(162.9)	(215.0)	-
<b>Reported PBT</b>	<b>2,558</b>	<b>(2,081)</b>	<b>696</b>	<b>3,381</b>
Tax	488	(111)	833	861
<b>Reported PAT</b>	<b>2,070</b>	<b>(1,970)</b>	<b>(137)</b>	<b>2,520</b>
Minority Int./Profit (loss) From Asso.	(3)	(22)	27	50
<b>Net Profit</b>	<b>2,067</b>	<b>(1,991)</b>	<b>(110)</b>	<b>2,570</b>
<b>Adjusted PAT</b>	<b>2,067</b>	<b>(1,828)</b>	<b>105</b>	<b>2,570</b>
<b>Adjusted EPS (INR)</b>	<b>1.4</b>	<b>(1.2)</b>	<b>0.1</b>	<b>1.7</b>

### Balance sheet (INR mn)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
Share Capital	2,246	2,480	3,249	2,065
Reserves & Surplus	21,009	14,141	13,990	16,491
<b>Networth</b>	<b>23,255</b>	<b>16,622</b>	<b>17,238</b>	<b>18,557</b>
Debt	59,553	62,804	63,084	58,665
Net deferred Tax liabilities	2,390	2,273	2,276	2,092
<b>Capital Employed</b>	<b>85,198</b>	<b>81,699</b>	<b>82,599</b>	<b>79,314</b>
Capital work in progress	1,736	2,615	1,606	133
<b>Net Fixed Assets</b>	<b>70,689</b>	<b>68,567</b>	<b>68,486</b>	<b>69,168</b>
Goodwill	2,251	2,251	2,251	2,251
Investments	1,590	1,930	1,792	1,536
Non Current Investments	159	293	137	0
Current Investments	1,431	1,637	1,655	1,536
<b>Current Assets, Loans &amp; Adv.</b>	<b>18,707</b>	<b>13,903</b>	<b>16,264</b>	<b>16,093</b>
Inventory	1,426	1,487	1,247	565
Debtors	1,358	1,490	1,161	1,104
Cash & Bank balance	4,100	4,329	6,541	7,352
Loans & advances and others	11,823	6,596	7,315	7,071
<b>Current Liabilities &amp; Prov.</b>	<b>9,774</b>	<b>7,566</b>	<b>7,801</b>	<b>9,867</b>
Liabilities	9,650	7,444	7,657	9,734
Provisions	124	122	143	133
<b>Net Current Assets</b>	<b>8,933</b>	<b>6,336</b>	<b>8,463</b>	<b>6,226</b>
<b>Application of Funds</b>	<b>85,198</b>	<b>81,699</b>	<b>82,599</b>	<b>79,314</b>

### Per share data

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
No. of units (mn)	1,515	1,515	1,515	1,515
Diluted no. of units (mn)	1,515	1,515	1,515	1,515
BVPS (INR)	15	11	11	12
CEPS (INR)	3.1	0.4	1.5	2.8
DPS (INR)	-	-	-	-

Source: Company, Antique

### Cash flow statement (INR mn)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
<b>PBT</b>	<b>2,555</b>	<b>(2,102)</b>	<b>723</b>	<b>3,431</b>
Depreciation & amortization	2,614	2,513	2,429	1,749
Interest expense	5,285	5,535	4,819	4,004
(Inc)/Dec in working capital	332	(1,066)	724	1,049
Tax paid	(1,138)	351	(1,001)	(1,117)
Less: Interest/Div. Income Recd.	(693)	(723)	(287)	(275)
Other operating Cash Flow	151	(375)	67	70
<b>CF from operating activities</b>	<b>9,106</b>	<b>4,133</b>	<b>7,475</b>	<b>8,911</b>
Capital expenditure	(6,079)	(1,716)	(1,259)	(1,071)
Inc/(Dec) in investments	(201)	1,996	(1,116)	(510)
Add: Interest/Div. Income Recd.	362	423	252	184
Others	(4,165)	46	(584)	733
<b>CF from investing activities</b>	<b>(10,082)</b>	<b>749</b>	<b>(2,707)</b>	<b>(665)</b>
Inc/(Dec) in share capital	(462)	29	-	0
Inc/(Dec) in debt	7,173	1,101	(210)	(5,189)
Interest paid	(5,077)	(4,073)	(4,145)	(3,358)
Dividend Paid	(786)	(131)	-	-
Others	211	(955)	(27)	128
<b>CF from financing activities</b>	<b>1,060</b>	<b>(4,028)</b>	<b>(4,382)</b>	<b>(8,419)</b>
<b>Net cash flow</b>	<b>85</b>	<b>853</b>	<b>386</b>	<b>(173)</b>
Opening balance	1,571	1,656	2,509	2,896
<b>Closing balance</b>	<b>1,656</b>	<b>2,509</b>	<b>2,896</b>	<b>2,723</b>

### Growth indicators (%)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
Revenue	-	(44.1)	45.3	11.0
EBITDA	-	(52.4)	64.8	15.6
Adj PAT	-	(188.4)	(105.8)	2336.7
Adj EPS	-	(188.4)	(105.8)	2336.7

### Valuation (x)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
P/E (x)	73.3	(82.9)	1,436.3	58.9
P/BV (x)	6.5	9.1	8.8	8.2
EV/EBITDA (x)	20.7	44.1	26.5	22.4
EV/Sales (x)	12.7	23.0	15.7	13.8
Dividend Yield (%)	-	-	-	-

### Financial ratios

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
RoE (%)	17.8	(9.2)	0.6	14.4
RoCE (%)	19.5	4.5	7.7	9.5
Asset/T.O (x)	0.4	0.1	0.2	0.2
Net Debt/Equity (x)	2.3	3.4	3.2	2.7
EBIT/Interest (x)	1.5	0.7	1.2	1.8

### Margins (%)

Year ended 31 Mar	FY20	FY21	FY22	9MFY23
EBITDA Margin (%)	61.1	52.0	59.0	61.4
EBIT Margin (%)	45.0	24.3	40.6	49.5
PAT Margin (%)	12.7	(20.2)	0.8	17.6

Source: Company Antique

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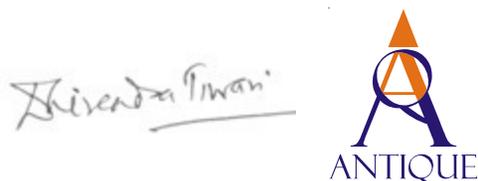
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