

# REIT Report

Choice

## “SUBSCRIBE” to Nexus Select Trust

A play on the urban consumption infrastructure of the country



# Nexus Select Trust

A play on the urban consumption infrastructure of the country

## Salient features of the IPO:

- Blackstone group backed **Nexus Select Trust** (Nexus), an owner of India's largest mall assets is coming up with a REIT (real estate investment trust) issue to raise Rs. 3,200cr, which opens on 9<sup>th</sup> May and closes on 11<sup>th</sup> May 2023. The price band is Rs. 95 - 100 per unit. Upon listing, Nexus will be India's first REIT with rent-yielding retail real estate assets.
- This issue consists of fresh offering and OFS portion. The trust will not receive any proceeds from the OFS portion. From the fresh issue net proceeds, the company will be utilizing Rs. 1,050cr for the acquisition of stake and redemption of debt securities in certain asset SPVs. Additionally, Rs. 250cr will be used for partial/full repayment of certain debts of the asset SPVs and the investment entity.
- According to the management, the Sponsor (i.e. the Blackstone Group) is currently having around 60% stake in the trust, and post-issue, this stake is expected to be at around 43%.
- As on 29<sup>th</sup> Sept. 2022, Nexus has been assigned a Provisional AAA (Stable) rating by ICRA Ltd. Further, on 11<sup>th</sup> Apr. 2023, it has been assigned a corporate credit rating of Provisional AAA (Stable) by CRISIL.

## Key competitive strengths:

- Located in India, one of the world's fastest growing consumption-led major economies
- India's largest platform of best-in-class assets with a presence in 14 key consumption cities
- Highly occupied by a diversified tenant base of renowned national and international brands
- Strong embedded growth with inflation hedged cash flows
- Strategically located assets in prime in-fill locations with high barriers to entry
- Fully integrated platform with a highly experienced management team
- Proprietary insights and access through industry-leading technology initiatives
- Renowned Sponsor with global expertise and local knowledge
- Long-term ESG commitment

## Risk and concerns:

- General slowdown in the economic activities
- Unfavorable government policies & regulations
- Sustained higher inflation levels and interest rates
- Lower than expected net distributable cash flows
- Unfavorable cash flow distribution-mix
- Delay or difficulty in expanding the portfolio assets under management
- Competition

## Below are the key highlights of the company:

- Urban consumption centers (UCC) provide a unique shopping experience by positioning as a one-stop destination for shopping, dining, entertainment etc. In India, majority of UCCs are located within the in-fill areas of the city, which are easily accessible from key residential catchments.
- With the entry of foreign brands in the country as well as expansion by the existing retailers, India is expected to witness continued demand of quality Grade-A retail assets, which are typically single owner/institutionally owned, centrally located, full experience UCCs offering well-known international and domestic brands to the consumers. Most of the total retail supply in India is classified as Grade-B, which are typically smaller in size, offering limited brands and amenities. As of 30<sup>th</sup> Jun. 2022, around 46.9% (i.e. 60.4mn sq. ft.) of overall retail stock in India are classified as Grade-A.
- Sponsored by the portfolio company of Blackstone real estate funds, Nexus is India's leading consumption center platform with 9.8mn sq. ft. retail area spread across 17 UCCs and 14 cities. It is located in cities like Ahmedabad, Amritsar, Bengaluru, Bhubaneswar, Chandigarh, Chennai, Delhi, Hyderabad, Indore, Mangaluru, Mysuru, Navi Mumbai, Pune and Udaipur, which cumulatively contribute around 30% to the discretionary retail spend in India. As of 31<sup>st</sup> Dec. 2022, the net fair value of Nexus's assets was Rs. 18,310cr, compared the net book value of Rs. 1,856cr (Source: RHP).

## Issue details

Price band	Rs. 95 - 100 per unit
Units for fresh issue (at higher price band)	14cr units (Rs. 1,400cr)
Units for OFS issue (at higher price band)	18cr units (Rs. 1,800cr)
Total issue size (at higher price band)	32cr units (Rs. 3,200cr)
Bidding Date	9 <sup>th</sup> May - 11 <sup>th</sup> May 2021
Trustee	Axis Trustee Services Ltd.
Sponsors	Wynford Investments Ltd. (a portfolio company of Blackstone real estate funds)
Manager	Nexus Select Mall Management Pvt. Ltd.

Book Running Lead Manager

BofA Securities India Ltd., Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., HSBC Securities and Capital Markets (India) Pvt. Ltd., IIFL Securities Ltd., JM Financial Ltd., J.P. Morgan India Pvt. Ltd., Kotak Mahindra Capital Company Ltd., Morgan Stanley India Company Pvt. Ltd. and SBI Capital Markets Ltd.

Registrar	KFin Technologies Pvt. Ltd.
Sector/Industry	Real Estate Investment Trusts

## Issue break-up

Institutional investors	24cr units (75% of the net offer)
Non-institutional investors	8cr units (25% of the net offer)

## Indicative IPO process time line

Finalization of basis of allotment	16 <sup>th</sup> May. 2023
Designated date	16 <sup>th</sup> May 2023
Closing date	17 <sup>th</sup> May 2023
Initiation of refunds	17 <sup>th</sup> May 2023
Listing date	19 <sup>th</sup> May 2023

## Application money at higher cut-off price per lot

Number of units per Lot	150
Application money	Rs. 15,000 per lot

## Key highlights of the company (Contd...):

- Its portfolio UCC has a tenant base of 1,044 domestic and international brands with 2,893 stores (as of 31<sup>st</sup> Dec. 2022). International brands include leading players like Zara, ALDO, Superdry and Marks & Spencer, while Indian brands comprised of Croma, Shoppers Stop, PVR Cinemas and Forest Essentials. During 9M FY23, around 47.3% of the gross rentals were derived from international brands, while 52.7% was generated from domestic brands. Nexus's tenant-mix is healthy across sectors such as apparel & accessories, hypermarket, entertainment, and food & beverages in order to provide a holistic shopping & entertainment offering to the consumers.
- Nexus derives a significant portion of the revenue from the leasing of space and thus the success of its business depends on its ability to maintain high occupancy levels. It typically enters into 3-9 year leases for in-line tenants, 9-25 year leases for anchor tenants and 5-9 year leases for office tenants. Most of the tenant leases provide for minimum guaranteed rentals, as well as turnover rentals, which allows Nexus to capture incremental rents from tenant sales growth.
- As of 31<sup>st</sup> Dec. 2022, its portfolio assets had committed occupancy of 96.2% with WALE (weighted average lease expiry) period of 5.7 years. 95.5% of its tenant leases had provision for minimum guaranteed rentals with typical contractual rent escalations of 12-15% over a period of 3-5 years, and 88.3% of its leases contained turnover rental arrangements. Moreover, during FY20-22 and 9M FY23, it was able to recover more than 80% of the operating & maintenance expenses from the tenants, while incurring significantly lower amounts of tenant improvement capital expenditure.
- Its retail assets are essential consumption infrastructure for the country's growing middle class population. Nexus's quality, reach, superior shopping experience and holistic retail offerings makes most of its retail assets as a preferred destination for leading brands looking to expand in India. Owing to these, it enjoyed a 96.2% average committed occupancy across the assets (as of 31<sup>st</sup> Dec. 2022), an 11% CAGR growth in tenant sales over FY18-20 and a 7.5% CAGR growth in marginal rents between CY16-19. Moreover, Nexus's portfolio assets commanded a 3.8% marginal rent premium compared to other assets in the portfolio market.
- Due to scarcity of land in the vicinity of residential catchments in the key cities, there was a constrained supply in the Nexus's market. In the last five years, new supply averaged around 2.3mn sq. ft. per annum. According to the RHP, the projected supply in 2023 and 2024 is expected to be low, compared to the projected absorption levels. Thus due to strong and sustained demand for Grade-A retail assets, the vacancy level across the portfolio cities of Nexus is expected to decline.
- With around 90% of the assets by value targeting the retail space, Nexus additionally has two hotel assets (354 keys) and three office assets (1.3mn sq. ft.). The hotels are managed by global operators like Hyatt and Oakwood. The hotel and office assets constituted around 2.9% and 6.1% to the Nexus's gross portfolio market value. These assets are complementary to the UCCs and drive incremental footfalls and tenant sales due to captive demand from hotel guests and office tenants.
- Blackstone is one of the world's leading investment firms with USD 975bn of assets under management (as of 31<sup>st</sup> Dec. 2022), across multiple alternate asset classes including real estate, private equity, infrastructure, life sciences, growth equity, credit, real assets and secondary funds. Blackstone's real estate business was founded in 1991 and is a global leader in real estate investing with USD 326bn of assets under management and portfolio assets spread across 1,475mn sq. ft. of leasable area. It has an extensive experience in building or rebuilding leading companies and taking them public such as Hilton Worldwide Holdings Inc. and Invitation Homes Inc. Blackstone has over 15 years of operating experience in India and has participated in India's first two REITs.
- Nexus's operations were severely impacted by the Covid-19 led restrictions. It reported a loss in the pandemic year i.e. FY21, however, it bounced back with 45.3% growth in the business in FY22. Over FY20-22, its top-line and EBITDA declined by 9.8% and 11.4% CAGR, respectively. Baring FY20, it reported net loss during FY21 and FY22. Operating cash flow was positive during the period, with average cash flow of Rs. 690.5cr. Net operating income (NOI, inclusive of other income) declined by 10.4% CAGR to Rs. 869.4cr in FY22 with 81bps contraction in NOI margin.
- During 9M FY23, Nexus reported a top-line of Rs. 1,463.1cr, which was around 77% of the projected figure of FY23E (Source: DRHP). NOI stood at Rs. 1,039.6cr with margin of 71.1%, compared to 72.7% projected for FY23E. Over FY22-26E, operating revenue is projected to increase by 17% CAGR, mainly on the back of contractual rent escalation, increased turnover rentals, re-leasing and lease-up of vacant areas. NOI is forecasted to improve by 21.5% CAGR with around 11ppts expansion in the NOI margin. Net distributable cash flow (NDCF) is expected at Rs. 1,413.4cr in FY26E, compared to Rs. 915.8cr in FY23E.

**Peer comparison and valuation:** Nexus has expanded significantly in the last three fiscal and is well-positioned to report continued growth in the future by expanding the tenant base and taking advantage of market opportunities. According to the management, following the utilization of the net proceeds, its leverage will be in comfortable position, thereby providing it with flexibility to pursue value-accretive acquisitions in the future.

Based on the fair asset value of Rs. 25,444cr, the calculated net asset value per unit is Rs. 120.9, which is 20.9% higher than the ceiling price of the issue. At higher price band (i.e. Rs. 100), the calculated pre-tax yield on the investment is around 8% (based on FY24E NDCF). However, as guided by the management, with quarterly 100% distribution of NDCF, compounded pre-tax yield is around 8.2%, which seems to be reasonable considering the early deflationary trend in the economy. Thus we assign a **"SUBSCRIBE"** rating for the issue.

## IPO rating rationale

**Subscribe:** An IPO with strong growth prospects and valuation comfort.

**Subscribe with Caution:** Relatively better growth prospects but with valuation discomfort.

**Avoid:** Concerns on both fundamentals and demanded valuation.

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