ICRA

# COMMERCIAL REAL ESTATE - RETAIL MALLS

## Strong urban consumption with preference towards premium brands to support 8-9% rental growth for mall operators in FY2025

November 2023

# Highlights

*Rental income is expected to grow by 8-9% in FY2025 driven by healthy occupancy levels, estimated growth in trading values and rental escalations.*

*ICRA expects the credit profile of the mall operators to remain stable, driven by healthy NOI, moderate leverage and healthy debt coverage metrics.*

Across the top six cities in India, new supply of 9-10 million square feet (msf) and around 6 msf is expected in FY2024 and FY2025, respectively. In H1 FY2024, the new supply stood at 5.6 msf with net absorption of 3.2 msf resulting in marginal increase in vacancy levels. With expected ramp-up in occupancy of new malls which got recently operational, the vacancy levels are expected to remain in the range of 18-19% in FY2024 (same as of FY2023) and improve marginally to 17-18% in FY2025 due to lower supply.

Trading values are expected to increase by 14-15% YoY in FY2024 driven by a rise in footfalls and higher spend per footfall driven by premiumisation. Jewellery, electronics & accessories, apparels, beauty care products of premium brands, and entertainment witnessed higher growth than average consumption in the past two quarters. Strong urban consumption trends with preference towards premium brands to support 10-12% YoY growth in trading values in FY2025 on a high base.

Rental income for ICRA's sample set witnessed a growth of 8.4% YoY in H1 FY2024 driven by increase in occupancy levels, scheduled escalations and higher revenue share backed by increase in retail trading values. ICRA estimates the rental income to expand by 9-10% YoY in FY2024. In FY2025, rental income is expected to grow by 8-9% supported by healthy occupancy levels, estimated growth in trading values and rental escalations.

The leverage ratio for the malls, measured by debt-to-NOI^, is likely to ease to 5.0-5.2x as of March 2024 from 5.5x as of March 2023, with expected improvement in NOI and is likely to sustain at similar levels in FY2025. Consequently, the debt service coverage ratio (DSCR), which was around 1.25x in FY2023, is projected to improve to 1.35x-1.4x in FY2024 and FY2025 despite an increase in interest rates.

*Note: ICRA's sample includes 38 malls totalling 25.4 million sft across 12 states. Cities include Delhi-NCR excluding Gurugram, Mumbai MMR, Bangalore, Hyderabad, Chennai and Pune; ^Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property*

# Agenda

**1** ICRA's outlook on retail malls

**2** Trends in supply, vacancy and rentals

**3** Performance of ICRA's sample set

**4** Rating actions in the sector

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# Thank You!