

September 30, 2022

Nexus Udaipur Retail Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	105.00	105.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Total	105.00	105.00	

*Instrument details are provided in Annexure I

Rationale

ICRA has taken a consolidated view of the six special purpose vehicles (SPVs, as mentioned in Annexure-II and collectively referred to as the rated entities) of the Nexus Mall's (retail mall arm of the Blackstone Group), given the common management, business linkages and cash flow fungibility, supported by cross collateralisation and cross default clauses as per the terms of the debt availed from a common lender.

The rating upgrade factors in the faster-than-estimated recovery in the mall's operational metrics post the second wave of the Covid-19 pandemic. There has been a significant growth in key metrics such as trading density, rent income and net operating income (NOI), despite moderate recovery in footfalls as compared to other metrics. The NOI of the portfolio in 4 months FY2023 was 123% of its NOI in 4 months FY2020 (pre-pandemic). The estimated growth in income and earnings is likely to result in a material improvement in the leverage and coverage metrics, with estimated Debt /NOI of below 5 times as of March 2023. The mall assets provide a comfortable security cover of around 3 times the external debt outstanding as of March 31, 2022.

The rating continues to draw comfort from the established track record of the sponsors in the real estate sector and the diverse portfolio in the retail real estate business in India. The seven malls and one 143-key hotel, housed under the rated entities, are managed by Nexus Malls, which is the retail platform of Blackstone Real Estate in India. The malls are expected to benefit from Nexus Malls' brand presence and track record of managing multiple retail malls across the country. The rating favourably factors in the diversified asset portfolio of the rated entities, with presence across five cities, namely Bangalore, Hyderabad, Mangalore, Mysore and Udaipur, as well as its established operating track record for the malls. The assets are situated in prominent micro-markets of the respective cities, providing good visibility and thereby, enhancing its marketability. The malls cumulatively cover a leasable area of 3.5 mn sq ft, of which 91% of the area was occupied as on July 31, 2022. The occupancy levels across most of the malls remain adequate at levels of 85% and above, with reputed groups such as PVR, Cinopolis, Landmark, Reliance, Tata & Trent, Aditya Birla, Arvind, SPAR, remaining the largest tenants. Aided by its comfortable leverage level, the DSCR is estimated to remain above 1.5 times in the near to medium term. The rating further draws comfort from the cross-collateralisation clause leading to cash flow fungibility among the entities. The mall assets (adjusted for companies' share of income) provide a comfortable LTV of 31% of July 31, 2022.

The rating, however, remains constrained by the risks arising from the cyclical nature in the retail sector and its vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows of the rated entities. The rating is also constrained by the vulnerability of coverage metrics to changes in interest rates and occupancy levels.

The Stable outlook reflects ICRA's expectation that the rated entities would continue to benefit from Nexus Malls' track record and the diverse geographical presence, mitigating to some extent concerns of temporary drop in occupancy levels or rental collections in any single asset. The rated entities will also benefit from the financial flexibility of the sponsor.

Key rating drivers and their description

Credit strengths

Strong sponsor group – The rated entities are mostly owned by the Blackstone Group through its affiliates. The sponsor is one of India's leading office, warehouse and mall landlords. The assets housed under the rated entities are managed by Nexus Malls, which is the retail platform of Blackstone Real Estate in India. The established track record of the shareholders in the real estate sector and the diverse portfolio in retail real estate business in India provide comfort. The mall is expected to benefit from Nexus Malls' presence and the experienced management in terms of operational and financial synergies due to the large retail portfolio.

Diversified asset profile with established operational track record – The rated entities have a diversified portfolio of seven mall assets and a 143-key hotel, with presence across five cities, namely Bangalore, Hyderabad, Mangalore, Mysore and Udaipur, as well as an established operating track record for the malls. The assets are situated in the prominent micro-markets of the respective cities, providing good visibility and enhancing its marketability. The malls cumulatively cover a leasable area of 3.5 mn sq ft, of which 91% of the area was occupied and operational as of July 2022. The asset base consists of a mix of marquee malls such as Nexus Koramangala and Nexus Celebration with long operating track record of 10-18 years, as well as relatively newer malls like Nexus Shantiniketan and Nexus Centre City, which have ramped up well in the past few years. The occupancy levels across majority of the malls remain adequate at levels of 85% and above, with reputed groups such as PVR, Cinepolis, Landmark, Reliance, Tata & Trent, Aditya Birla, Arvind, SPAR, remaining the largest tenants.

Improving occupancy and operating metrics of malls drive improvement in debt coverage – In 4 months FY2023 (April 2022 to July 2022), the cumulative NOI recovered to 123% of the NOI in the corresponding period of FY2020, against recovery levels of 72% of its NOI in FY2022 compared to FY2020. The leverage, as measured by Debt/NOI, is expected to improve significantly in FY2023 to 4.9 times, resulting in comfortable DSCR of above 1.5 times in the near to medium term. Further, presence of considerable liquidity buffer in the form of DSRA equivalent to three months' debt servicing provides comfort. The mall assets (adjusted for companies' share of income) provide a comfortable LTV of 31% of July 31, 2022.

Credit challenges

Vulnerability to external factors including outbreak of pandemic – The portfolio is exposed to the risks from the cyclicity in the sector and vulnerability to exogenous shocks such as the pandemic, which could impact the cash flows. The recovery of the mall's operations to the pre-pandemic level on the back of improved demand mitigates the risk to an extent.

Debt coverage metrics vulnerable to changes in occupancy levels and interest rates – The debt coverage ratios remain linked to changes in interest rates and occupancy levels. Any increase in interest rate or decline in occupancy levels in the operational assets might put pressure on the debt coverage metrics.

Liquidity position: Adequate

The liquidity position of the SPVs will be supported by stable rental income from the underlying assets. Healthy fund flow from operations will be adequate to cover the debt servicing obligations. Additionally, the SPVs had cash and bank balances (Including DSRA) of Rs. 127.6 crore as on March 31, 2022.

Rating sensitivities

Positive factors – A higher-than-estimated growth in NOI due to higher occupancy or stronger tenant sales resulting in higher revenue share for the malls, or a material de-leveraging leading to improved debt protection metrics could result in a rating

upgrade. Specific credit metrics that could lead to a rating upgrade would be five-year DSCR higher than 1.6 times on a sustained basis.

Negative factors – The rating could be downgraded in case of reduction in occupancy levels below 80% on a sustained basis or lower-than-expected retail sales by the mall tenants resulting in material decline in NOI. Any additional debt raised for acquisition/capex/other corporate funding requirements would be a key monitorable. Specific credit metric that could lead to a rating downgrade would be five-year DSCR falling below 1.35 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Lease Rental Discounting Rating Approach- Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of the six SPVs (as mentioned in Annexure-II) of the Nexus Mall Group (retail arm of the Blackstone Group), given the common management, business linkages and cash flow fungibility, supported by cash flow pooling mechanism and cross collateralisation.

About the company

Nexus Udaipur Retail Private Limited (NURPL) is a private limited company incorporated as an SPV of the Prestige Group. In FY2021, the Blackstone Group acquired 85% shareholding in the company. NURPL operates a retail mall called Nexus Celebrations in Udaipur, Rajasthan. The mall has a leasable area of 0.40 mn sq ft and is occupied by reputed tenants. The mall is 87% occupied as of March 2022.

Key financial indicators (consolidated)^

Consolidated	FY2021	FY2022*
Operating income	175.7	271.8
PAT	-256.6	-73.8
OPBDIT/OI	44.5%	44.4%
PAT/OI	-146.1%	-27.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.5
Total debt/OPBDIT (times)	15.5	12.8
Interest coverage (times)	0.5	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore. *Provisional ^ As per ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on July 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Sep 30, 2022	Sep 30, 2021	-	-	
1	Term loans	Long term	105.0	103.2	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	Mar-21	NA	Mar-33	105.0	[ICRA]A+ (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	Ownership*	Consolidation Approach
Nexus Mangalore Retail Private Limited	85.0%	Full Consolidation
Nexus Hyderabad Retail Private Limited	85.0%	Full Consolidation
Nexus Shantiniketan Retail Private Limited	85.0%	Full Consolidation
Nexus Mysore Retail Private Limited	85.0%	Full Consolidation
Nexus Udaipur Retail Private Limited	85.0%	Full Consolidation
Nexusmalls Whitefield Private Limited	85.0%	Full Consolidation
Prestige Retail Ventures Limited	0.0%^	Not Consolidated

*Ownership of Blackstone Group in terms of shareholding in respective entities

^Note: Prestige Retail Ventures Ltd (PRVL) is a 100% subsidiary of PEPL (Prestige Estates Private Limited; flagship company of Prestige Group). On March 09, 2021, Prestige Group entered into an Investment agreement with Blackstone Group for sale of the retail mall asset "Nexus Koramangala". As part of the agreement, the said asset was demerged from PRVL and is now housed under Nexus Hyderabad Retail Pvt Ltd (NHRPL). Consequently, this entity is not consolidated in the current rating approach.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Tusar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Abhilash Sirsikar
+91 22 6114 3421
abhilash.sirsikar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.