

June 01, 2023^(Revised)

Nexus Select Trust (Nexus Select Mall Management Private Limited): Rating assigned for non-convertible debentures; provisional rating finalised for issuer rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]AAA (Stable); Provisional rating finalised
Non-convertible debentures	-	1000.00	[ICRA]AAA (Stable); Assigned
Total	-	1000.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has finalised the provisional issuer rating assigned to Nexus Select Trust, a real estate investment trust (Trust) at [ICRA]AAA (Stable). The finalisation of the provisional rating takes into consideration the completion of the transfer of all the 17 urban consumption centres (malls), three office properties, two hotels and one renewable energy plant and issuance of units in line with the indication at the time of assigning the provisional rating.

The rating is not a comment on the ability of the Trust to meet the distribution/dividend pay-outs to unitholders/investors; neither should it be construed as an opinion on the debt servicing ability of the individual project assets or SPVs held by the Trust. Nexus Select Trust is sponsored by Wynford Investments Limited, an affiliate of Blackstone Inc (Blackstone). Nexus Select Mall Management Private Limited is the manager, which is currently 79% owned by Blackstone.

ICRA has undertaken a consolidated financial analysis of Nexus Select Trust and the 16 entities housed under the Trust. It comprises Nexus Mangalore Retail Private Limited (NMRPL Mangalore), Nexus Hyderabad Retail Private Limited (NHRPL), Nexus Shantiniketan Retail Private Limited (NSRPL), Nexus South Mall Management Private Limited (NSMMPL)¹, Nexus Mysore Retail Private Limited (NMRPL Mysore), Nexus Udaipur Retail Private Limited (NURPL), Nexussmalls Whitefield Private Limited (NWPL), Vijaya Productions Private Limited (VPPL), Euthoria Developers Private Limited (EDPL)², CSJ Infrastructure Private Limited (CSJIPL), Indore Treasure Island Private Limited (ITIPL), Naman Mall Management Company Private Limited (NMMCPL), Chitrani Properties Private Limited (CPPL), Safari Retreats Private Limited (SRPL), Select Infrastructure Private Limited (SIPL)³ and Daksha Infrastructure Private Limited (DIPL).

The rating derives comfort from the diversified portfolio of the Trust with 17 urban consumption centres, three office properties, two hotels and one renewable energy plant spread across the country. These urban consumption centres are spread across 14 cities such as Bengaluru, Chennai, Delhi, Hyderabad, Navi Mumbai, Pune, etc. These urban consumption centres are situated in prominent micro-markets of the respective cities providing good visibility and thereby enhancing their marketability. The asset base consists of a mix of marquee urban consumption centres such as Nexus Koramangala, Select Citywalk and Nexus Elante with long operating track record of 10-18 years, as well as relatively newer urban consumption centres like Nexus Shantiniketan and Nexus Seawoods, which have ramped up well in the past few years. The reputed tenant profile consists of Reliance Retail, Landmark Group, PVR, Tata & Trent, Cinepolis, etc. The rating also factors in the experience and track record of the Trust's sponsor group.

¹ Includes wholly owned subsidiary- Mamadapur Solar Private Limited

² Post merger of Ruchi Malls Private Limited - the entity holding Nexus Ahmedabad One Mall, with Euthoria Developers Private Limited.

³ Includes wholly owned subsidiary - Westerly Retail Private Limited (holding Nexus Seawoods Mall)

The total leasable area in these urban consumption centres is 9.8 million square feet (msf) with an occupancy of 95.7% as on December 31, 2022. The urban consumption centres contributed to 42% of the net operating income (NOI) in 9M FY2023 and contribution from other assets was 12%. Nexus Select Trust's revenues are expected to benefit from the growing retail consumption and urbanisation in India.

ICRA notes the strong recovery trends in the first nine months of FY2023 across the urban consumption centres. The consumption levels in 9M FY2023 were 128.4% of the value during the same period in FY2020. Similar trends were observed in NOI, which was approximately 118% of that generated during the same period in FY2020. The footfalls are also showing a recovery and nearing the pre-Covid levels. ICRA expects that the NOI in FY2023 will be 115% of FY2020 NOI and the NOI in FY2024 will be ~7% higher than FY2023 NOI.

The rating draws comfort from the low leverage metrics. The portfolio has a low leverage with loan to asset value (LTV) of around 19% as of May 2023, which provides financial flexibility to Nexus Select Trust. As per the discussion with the management and the current business plans, ICRA expects the leverage to remain below 25% of LTV, thereby supporting the Trust's strong credit profile. The rating draws comfort from the SEBI's REIT regulations that restrict⁴ the aggregate consolidated borrowings and deferred payments for the REIT and its SPVs, thereby limiting the leverage and under-construction portfolio that can be undertaken by the Trust. As per ICRA's base case estimates, the leverage as measured by external debt to net operating income (Debt to NOI) ratio is estimated to be around 3 times⁵ as of March 2024.

The Trust, however, remains exposed to refinancing risk. A part of the debt at the consolidated level, after the Trust formation, is expected to be in the form of non-convertible debentures (NCDs) or loans with bullet principal repayment with different maturities and long tenure loans at the SPV. Further, the Trust's portfolio is exposed to risks from the cyclicity in the retail sector and its vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows of the Trust. The rating considers the possible increase in leverage due to potential future debt-funded acquisitions. However, the regulatory restriction on leverage and under-construction portfolio will mitigate the risk to some extent.

The Stable outlook reflects ICRA's opinion that the Trust will maintain its strong operational profile, supported by the large and diversified operational urban consumption centres portfolio and the estimated revenue growth from these assets. ICRA expects the Trust to maintain a healthy financial risk profile with low leverage levels.

Key rating drivers and their description

Credit strengths

Large and diversified asset portfolio with reputed tenant profile – The Trust operates a diversified portfolio of 17 urban consumption centres, three office spaces, two hotels and one renewable energy plant across the country. These urban consumption centres are spread across cities such as Bengaluru, Chennai, Delhi, Hyderabad, Navi Mumbai, Pune, etc. The assets are situated in prominent micro-markets of the respective cities, thereby enhancing its marketability and has established operating track record. The reputed tenant profile is reputed and consists of groups like Reliance Retail, Landmark Group, PVR, Tata & Trent, Cinepolis etc. The NOI contribution from top 3 urban consumption centres was 42% in 9M FY2023 and contribution from other assets was 12%. The portfolio is likely to benefit from the operational and financial synergies due to the large retail portfolio.

Track record of sponsor and manager – The Trust's portfolio is majorly owned by the Blackstone Group through its affiliates. Blackstone is one of India's leading landlords for office, retail urban consumption centres and warehousing assets. The Trust is to be managed by Nexus Select Mall Management Private Limited, which is currently 79% owned by Blackstone. All the assets housed under the Trust (excluding Select Citywalk) have been historically managed by Nexus Select Mall Management Private Limited, which is the retail management platform of Blackstone in India. The established track record of the sponsor group in

⁴ For REITS, SEBI permits leverage upto 49% of the value of its assets

⁵ As per ICRA Estimates

the real estate sector and the diversified portfolio in India provide comfort. The portfolio is likely to benefit from the experienced management team and strong parentage.

Low initial leverage – The rating draws comfort from the expected low leverage with estimated debt/NOI of around 3 times in FY2024. The low LTV of around 19% provides financial flexibility to the Trust. In absence of any significant capital expenditure plans, ICRA expects the debt/NOI to remain at similar levels. While the low leverage provides financial flexibility to fund future acquisitions, restrictions on leverage levels and under-construction portfolio by REIT regulation, is likely to support the financial risk profile.

Credit challenges

Exposure to refinance risk – A part of the proposed debt at the consolidated level is expected to be in the form of NCDs bullet principal repayments at different maturities exposing the company to refinancing risk. The risk is likely to be mitigated to an extent with the tranching of the issuances with well-spread-out maturities and the financial flexibility of Trust due to low leverage.

Vulnerability to external factors including outbreak of pandemic – The Trust's portfolio is exposed to risks arising from the cyclical nature in the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows. The recovery of the urban consumption centres' operations to pre-pandemic level on the back of improved demand, mitigates the risk to an extent. The pandemic had disrupted the urban consumption centres' operations in FY2021 and FY2022.

Possible increase in leverage due to future acquisitions – Although initial leverage after Trust formation is estimated to be low, in case of any aggressive debt-funded acquisition plans, the leverage may increase, thus impacting the consolidated debt coverage indicators. However, regulatory restriction on leverage and under-construction portfolio will mitigate the risk to some extent. ICRA notes the possibility of acquisitions through issuance of Trust units as acquisition consideration, which would limit the future debt requirements.

Liquidity position: Strong

The liquidity position of the Trust will be supported by stable rental income from the underlying assets and low operational expenditure in the leasing business. Healthy fund flow from operations will be adequate to cover the debt servicing obligations.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Decline in occupancy below 80%, on a sustained basis, leading to moderation in debt protection metrics may lead to downgrade in rating. Further, significant borrowings that results in an increase in LTV higher than 30%, on a consistent basis, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Investment Trusts Policy on Provisional Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the combined financial statements of the issuer (list of entities in Annexure II)

About the Trust

Nexus Select REIT (Nexus Trust / the Trust) was incorporated on August 10, 2022, as a trust. The REIT was listed on the stock exchange on May 19, 2023. The REIT owns 17 urban consumption centres, three office spaces, two hotels and one renewable energy plant across the country. The REIT is sponsored by Wynford Investments Limited, an affiliate of Blackstone Inc (Blackstone).

Key financial indicators

Key financial indicators are not applicable as the assets under the trust were recently acquired in May 2023 and consolidated financials of the Trust are not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on May 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				June 01, 2023	Sept 29, 2022	-	-
1 Issuer rating	Long Term	-	-	[ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	-	-
2 Non-convertible debentures	Long term	1000.00	Yet to be raised	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable
Non-convertible debentures	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	-	-	-	[ICRA]AAA (Stable)
Yet to be raised	Non-convertible debentures	-	-	-	1000.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company/SPV Name	Ownership	Consolidation Approach
Nexus Hyderabad Retail Private Limited	100%	Full Consolidation
Nexus Mangalore Retail Private Limited	100%	Full Consolidation
Nexus Shantiniketan Retail Private Limited	100%	Full Consolidation
Nexus South Mall Management Private Limited ⁶	100%	Full Consolidation
Nexus Mysore Retail Private Limited	100%	Full Consolidation
Nexusmalls Whitefield Private Limited	100%	Full Consolidation
Vijaya Productions Private Limited	100%	Full Consolidation
Euthoria Developers Private Limited	99.45%	Full Consolidation
CSJ Infrastructure Private Limited	100%	Full Consolidation
Indore Treasure Island Private Limited	50%	Equity Method
Naman Mall Management Company Private Limited	100%	Full Consolidation
Chitralli Properties Private Limited	100%	Full Consolidation
Safari Retreats Private Limited	100%	Full Consolidation
Select Infrastructure Private Limited ⁷	100%	Full Consolidation
Daksha Infrastructure Private Limited	100%	Full Consolidation
Nexus Udaipur Retail Private Limited	100%	Full Consolidation

Source: company

Corrigendum

Document dated June 01, 2023 has been revised with revision as detailed below:

- The rated amount for the NCDs is revised in rating history and instrument details section.
- The instrument type of issuer rating is added in the rating history table.
- The rating action under current rating and outlook is removed from the Instrument details section.

⁶ Includes wholly owned subsidiary Mamadapur Solar Private Limited

⁷ Includes wholly owned subsidiary Westerly Retail Private Limited

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