

May 10, 2024^(Revised)

Nexus Select Trust: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Nexus Select Trust (The Trust) favourably factors in its diversified portfolio comprising 17 urban consumption centres spread across 14 cities such as Bengaluru, Chennai, Delhi, Hyderabad, Navi Mumbai, Pune, etc, with a total leasable area of 9.9 million square feet (msf), three office properties with total leasable area of 1.3 msf, two hotels with 354 keys and one renewable energy plant spread across the country. The urban consumption centres are situated in prominent micromarkets of the respective cities, thereby enhancing their marketability and ensuring healthy footfalls. The asset base consists of a mix of marquee urban consumption centres such as Nexus Koramangala, Select Citywalk and Nexus Elante with a 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 over the past few years. The tenant profile remains strong comprising reputed brands such as Reliance Retail, Landmark Group, PVR, Tata & Trent, Cinapolis, etc. The rating also factors in the established track record of the REIT's manager and the sponsor, and the experience of the management team in handling the diversified portfolio of retail assets in India.

The rating derives comfort from the strong occupancy levels for the urban consumption centres at 97.6% as on March 31, 2024 (96.3% as on March 31, 2023). The urban consumption centres are expected to contribute around 90% to the net operating income (NOI) in FY2025 and contribution from other assets is likely to be around 10%. The NOI is projected to grow by 6-8% YoY in FY2025 (on an annualised basis), driven by increase in trading values and realisation of rental escalations from the tenants.

The rating draws comfort from the low leverage and strong debt coverage metrics of the Trust. As of March 2024, the loan to asset value (LTV) on gross debt basis stood at 17%, which provides financial flexibility to Nexus Select Trust. While the Trust plans to acquire additional three assets of 1.0 msf of area, ICRA expects the LTV to remain below 25% in the near to medium term, supporting its strong credit profile. The rating draws comfort from SEBI's REIT regulations that restrict 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) is expected to remain low as of March 2025 and the debt coverage indicators are expected to remain strong.

The Trust, however, remains exposed to refinancing risk. A part of the debt at the consolidated level is in the form of non-convertible debentures (NCDs) or loans with bullet principal repayment with different maturities. Further, the Trust's portfolio is exposed to risks from the cyclicity in the retail sector and its vulnerability to exogenous shocks, which could impact its cash flows. The rating considers the possible increase in leverage to higher-than-expected levels 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 continue to maintain its strong occupancy levels, witness steady growth in NOI and benefit from its large, diversified and stable operational portfolio of urban consumption centres and will continue to maintain comfortable leverage metrics.

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 micromarkets of the respective cities, thereby enhancing its marketability and has an established operating track record. The tenant profile is reputed and consists of groups like Reliance Retail, Landmark Group, PVR, Tata & Trent, Cinapolis, etc. The NOI contribution from top 3 urban consumption centres was at 42% in 9M FY2023 and the contribution from other assets (offices, hotels and renewable energy plants) was 12%. The portfolio is likely to benefit from the operational synergies due to the large retail portfolio.

Low leverage and strong coverage metrics – The rating draws comfort from the low leverage measured by debt/NOI as of March 2025 and the strong debt coverage indicators estimated for the Trust. The low LTV of 17% provides financial flexibility to the Trust. While the Trust plans to acquire additional 3 assets of 1.0 msf, ICRA expects the LTV to remain below 25% in the near to medium term supporting its strong credit profile. While the low leverage provides financial flexibility to fund future acquisitions, restrictions on leverage levels and under-construction portfolio by REIT regulations, provides comfort.

Track record of REIT's manager and sponsor - The Nexus Select Trust is managed by Nexus Select Mall Management Private Limited (NSMMPL), which is currently 79% owned by the Blackstone Group, which is one of India's leading landlords for office, retail urban consumption centres and warehousing assets and the sponsor for the REIT. All the assets housed under the Trust (excluding Select Citywalk) have been historically managed by NSMMPL, which is the retail management platform of Blackstone Group in India. The established track record of the sponsor and the REIT's manager, and the experience of the management team in handling the diversified portfolio of retail assets in India provides comfort.

Credit challenges

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

Vulnerability to external factors and cyclical in real estate – The Trust's portfolio is exposed to risks arising from the cyclical in the sector and vulnerability to exogenous shocks, which could impact the cash flows. The strong recovery of the urban consumption centres' operations to the pre-pandemic level on the back of improved demand mitigates the risk to an extent.

Any significant increase in leverage due to debt funded acquisitions – Although the leverage of the Trust 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 provides comfort. 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. ICRA notes the principal repayments for the Trust remain low in FY2025 and FY2026 at Rs. 0.5 crore and Rs. 4.5 crore, respectively, which would be comfortably met from its cash flow from operations. The bullet repayment of CP of Rs. 100 crore and NCD of Rs. 700 crore will fall due in FY2025 and FY2027 respectively, which is expected to be refinanced by the Trust. As on March 31, 2024, the Trust had free cash of Rs. 95.8 crore and unencumbered liquid investments (Post factoring in the recent distribution of Rs. 316.8 crore) of Rs. 649.3 crore.

Environmental and Social Risks

Environmental considerations – The Nexus Select Trust remains exposed to risks arising on account of increasing sensitivity of tenants towards environmental norms and their growing preference towards more energy efficient buildings, which could affect demand for old assets. In order to mitigate the risk, the company has set up measures and targets for transitioning to environment friendly operations with low-carbon footprint. The company has set targets for reducing scope 1 and scope 2 emissions by 25% in FY2025 and by 100% in 2030, by increasing the share renewable energy consumption through solar and wind sources.

Social considerations – Given the manpower-intensive nature of retail mall operations, the Trust remains exposed to social risks in the form of disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. The Trust follows a comprehensive approach to employee development, addressing both functional and behavioural training needs. The Trust has a policy encompassing incident investigations, hazard identification, risk assessment, and corrective actions.

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 35%, on a consistent basis, would be a credit negative.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Real Estate Investment Trusts (REITs) |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials statements of Nexus Select Trust and its subsidiaries (List of subsidiaries as mentioned 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 (audited)

| | FY2024* |
|--|---------|
| Operating income | 1,916.9 |
| PAT | 592.3 |
| OPBDIT/OI | 67.1% |
| PAT/OI | 30.9% |
| Total outside liabilities/Tangible net worth (times) | 0.3 |
| Total debt/OPBDIT (times) | 2.9 |
| Interest coverage (times) | 3.8 |

Source: Nexus Select Trust, ICRA Research, all ratios as per ICRA calculations. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*YTD FY2024 from May 13, 2023 to March 31, 2024

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | | Current rating (FY2025) | | | Chronology of rating history for the past 3 years | | | |
|------------|----------------------------|-------------------------|--------------------------|--|---|-------------------------|--------------------------------|-------------------------|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on December 31, 2023 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | May 10, 2024 | June 01, 2023 | Sept 29, 2022 | - |
| 1 | Issuer rating | - | - | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | Provisional [ICRA]AAA (Stable) | - |
| 2 | Non-convertible debentures | Long term | 1000.0 | 1000.0 | [ICRA]AAA (Stable) | [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) |
| INE0NDH07019 | Non-convertible debentures | June 16, 2023 | 7.86% | June 16, 2026 | 700.0 | [ICRA]AAA (Stable) |
| INE0NDH07027 | Non-convertible debentures | June 16, 2023 | 8.00% | June 16, 2028 | 300.0 | [ICRA]AAA (Stable) |

Source: Nexus Select Trust

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 |
| Mamadapur Solar Private Limited ¹ | 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 ² | 100% | Full Consolidation |
| Daksha Infrastructure Private Limited | 100% | Full Consolidation |
| Nexus Udaipur Retail Private Limited | 100% | Full Consolidation |

Source: Nexus Select Trust

Corrigendum

Document dated May 10, 2024 has been revised as detailed below:

The maturity date of NCDs have been corrected.

¹ Includes wholly owned subsidiary Nexus South Mall Management Private Limited

² Includes wholly owned subsidiary Westerly Retail Private Limited

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

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

Abhilash Sirsikar
+91 22 6169 3379
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

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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