

IPO Note

NEXUS Select Trust LIMITED

May 09, 2023





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Details of the Issue

Price Band	₹ 95 - ₹ 100
Issue Size	₹ 3,200 Cr
Face Value	₹ 95 - ₹ 100
Bid Lot	150 units
Listing on	BSE, NSE
Post Issue Mcap	₹ 15,150 Cr
Investment Range	₹ 14,250 - ₹ 15,000

Important Indicative Dates (2022)

Opening	09 - May
Closing	11 - May
Basis of Allotment	16 - May
Refund Initiation	04 - May
Credit to Demat	18 - May
Listing Date	19 - May

Lead Manager

Bof A Securities India Limited
Axis Capital Limited
IIFL Securities Limited
Citygroup Global Market India Private Limited
HSBC Securities and Capital Market Private Limited
JM Financial Limited
J.P Morgan India Private Limited
Kotak Mahindra Capital Company Limited
Morgan Stanley India Company Private Limited
SBI Capital Markets Limited

Offer Details

Offer Size	₹ 1,800 Cr
Fresh Issue	₹ 1,400 Cr
OFS	₹ 3,200 Cr

Credit Rating

Rating	Rating Agency
AAA/Stable	ICRA
AAA/Stable	CRISL

Trustee	Axis Trustee Services Ltd
Sponsors	Wynford Investment Ltd. (a portfolio company of Blackstone real estate funds)
Manager	Nexus Select Mall Management

QIB Share Offered	75%
NII Share Offered	25%

Invest Now**Company Profile**

Nexus Select Trust is a leading real estate investment trust in India that specializes in urban consumption centers. The company owns 17 Grade-A consumption centers, two hotels, and three office assets across 14 cities, with a total leasable area of 9.8 million square feet. The centers house a diverse mix of tenants, including apparel, hypermarket, entertainment, and food and beverage sectors. Additionally, Nexus Select Trust is committed to over 50 ESG initiatives aimed at creating a positive impact on people and the environment. The company serves cities such as Delhi, Navi Mumbai, Bengaluru, Pune, Hyderabad, and Chennai, which accounted for 30% of India's discretionary retail spending in FY20.

Business Highlights & Services

Nexus Select Trust Ltd is the owner of India's leading consumption centre platform of high-quality assets that serve as essential consumption infrastructure for India's growing middle class (Source: CBRE Report, by Completed Area). Company expect to be the first publicly listed consumption centre REIT in India upon the listing of Units on the Stock Exchanges. Consumption growth has served as a key driver of the Indian economy over the last decade (Source: Technopak Report), and Portfolio is well-positioned to benefit from the consumption tailwinds of India's growing middle class and rapid urbanization. Portfolio offers an attractive opportunity to capitalize on India's consumption growth through a robust business model and diversified asset base that can serve as a natural hedge against inflation.

The Portfolio comprises 17 best-in-class Grade A urban consumption centres with a total Leasable Area of 9.2 msf, two complementary hotel assets (354 keys) and three office assets (1.3 msf) as of December 31, 2022. Their assets are strategically located across 14 leading cities in India, which constituted 30% of India's total discretionary retail spending in FY20 and had an average population CAGR that was 226 bps higher than the national average from financial years 2011 to 2021. Company have invested in among the highest quality assets in prime in-fill locations of India's major cities such as Delhi, Navi Mumbai, Bengaluru, Pune, Hyderabad and Chennai. These cities have limited organized retail stock and continue to witness strong demand fundamentals as domestic and international retailers expand their businesses even as future supply of retail space is expected to remain constrained. However, demand remains strong as brick-and-mortar and online retail is expected to grow by capturing market share from unorganized retail. The quality, scale and reach of pan-India Portfolio, superior shopping experience and holistic retail offering have enabled to achieve a market-leading position, which makes most of Portfolio assets destinations of choice for leading brands that are looking to expand in India. A majority of Portfolio assets are market leaders in their respective submarkets and serve as shopping, entertainment and social destinations for their respective catchments. As a result, Nexus REITs enjoyed a 96.2% average Committed Occupancy across Portfolio as of December 31, 2022, a 11.0% CAGR in tenant sales from FY18 to FY201, and a 7.5% CAGR in Marginal Rents across Portfolio from CY16 to CY19 (122 bps higher than the average Marginal Rents for Portfolio Markets).

Nexus own India's largest portfolio of consumption centers, which would be difficult to replicate due to limited availability of prime city center land parcels, long development timelines, and specialized capabilities required for developing, stabilizing, and operating comparable assets. Portfolio has over 1,000 domestic and international brands with a diversified mix of tenants across sectors such as apparel, hypermarket, entertainment, and F&B, providing a holistic shopping and entertainment experience.



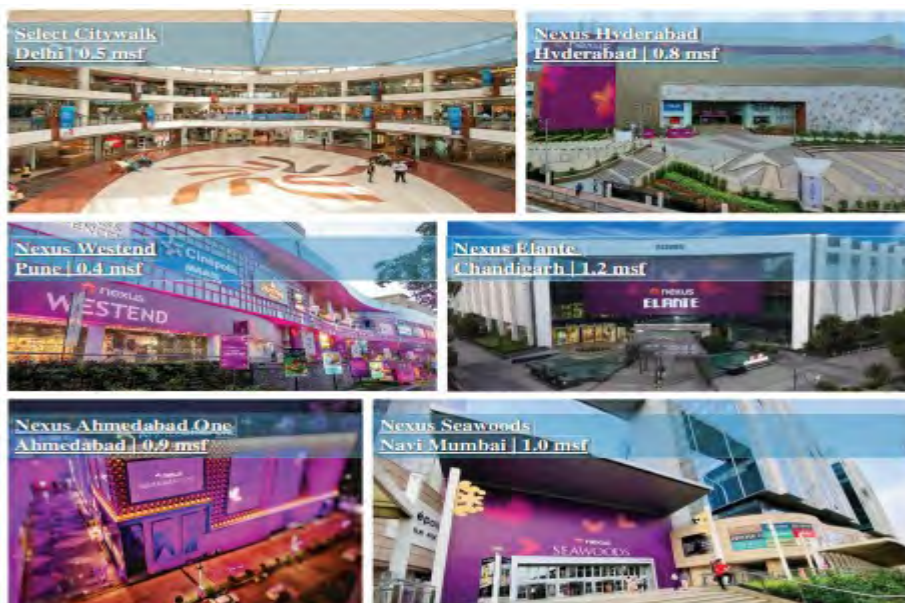
Company asset management capabilities have conferred significant resilience to portfolio, with tenant sales recovering to 128.1% of pre-COVID-19 levels as of December 31, 2022. They are well-hedged against inflation, with most of tenant leases providing for minimum guaranteed rentals and turnover rental arrangements. Over the last three years and nine months, they have recovered more than 80% of operating and maintenance expenses from tenants while incurring lower tenant improvement capital expenditure than consumption centers in the United States.

While company Portfolio is highly stabilized with Committed Occupancy of 96.2% and 5.7-year WALE as of December 31, 2022, Portfolio enjoys strong embedded growth prospects. Nexus REITs is well-positioned for strong organic growth through a combination of contractual rent escalations, increased tenant sales leading to higher Turnover Rentals and re-leasing at higher market rents and lease-up of vacant area. As a result, Portfolio's total NOI is projected to grow organically by 17.1% between FY24E and FY26E. Further, Nexus REITs have a strong track record of delivering inorganic growth through accretive acquisitions and well-positioned to scale inorganically through a lowly levered balance sheet with total indebtedness expected to be less than 20.0% of initial market value post the utilization of the Net Proceeds from this offering.

Over the last 3 fiscal years and 9 months, through their disciplined operating and investment expertise, they have:

- Leased 4.2 msf, added 408 new brands to their tenant base and achieved average Re-leasing Spreads of 19.2% on approximately 2.9 msf of re-leased space;
- Consistently maintained over 90% Same-store Committed Occupancy between January 1, 2018 and June 30, 2022, with a Same-store Committed Occupancy of 93.9% as of June 30, 2022, 276 bps higher than the Same-store Committed Occupancy for their Portfolio Markets;
- Achieved 7.5% CAGR in Marginal Rents across their Portfolio from CY16 to CY19 (122 bps higher than the average Marginal Rents for their Portfolio Markets);
- Achieved 11% CAGR3 in tenant sales between FY18 to FY20 through strong marketing and consumer outreach initiatives;
- Increased the Portfolio by 4.6 msf through strategic acquisitions and accretive build-outs of their urban consumption centres;
- Undertook strategic initiatives to upgrade their urban consumption centres, including 8 food courts, 5 atriums and 6 facades. They also proactively engaged with tenants resulting in tenants incurring significant capital expenditure to upgrade over 283 stores totaling 1.8 msf;
- Implemented over 50 ESG initiatives including renewable power plants and COVID-19 vaccination campaigns, which resulted in their Portfolio receiving a Global Real Estate Sustainability Benchmark (GRESB) score of 76% as of 2022, and obtained Platinum/Gold Indian Green Building Council ("IGBC") ratings across 16 urban consumption centres and 2 hotel assets in their Portfolio as of March 31, 2023.

Nexus Select Trust Portfolio





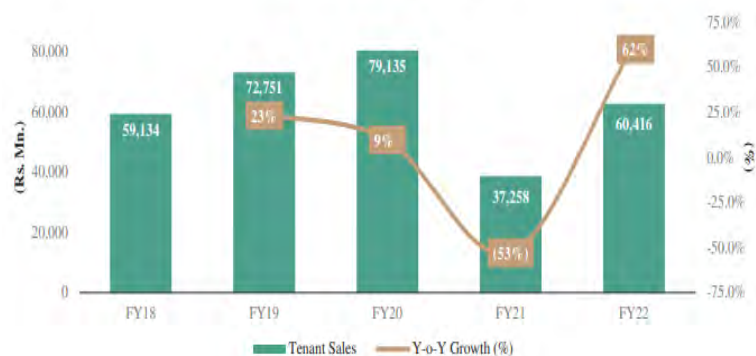
Key Portfolio Information

Urban consumption Centers	
Leasable Area (msf)	9.2
Committed Occupancy (%) as of December 31, 2022	96.20%
Number of stores	2,893
Market Value (Rs. million)	2,11,466
Percentage of Gross Portfolio Market Value (%)	90%
For FY20:	
Tenant sales (Rs. million)	79,135.50
Tenant Sales Per Square Foot (Rs.)	1,235.60
Tenant sales CAGR (FY18 to FY20)(3)	11%
Rent-to-Sales Ratio (%)	12.50%
Shopper traffic (footfall, million)	133.3
For the nine months ended December 31, 2022:	
Tenant sales (Rs. million)	78,136.90
Tenant Sales Per Square Foot (Rs.)	1,554.70
Rent-to-Sales Ratio (%)	11.80%
Shopper traffic (footfall, million)	92.7
For FY21 and FY22:	
Tenant sales for FY21 / FY22 (Rs. million)	37,257.5 / 60,415.7
Hotels	
Number of hotel keys	354
Market Value (Rs. million)	6790
Percentage of Gross Portfolio Market Value (%)	2.90%
Offices	
Leasable Area (msf)	1.3
Market Value (Rs. million)	14324
Percentage of Gross Portfolio Market Value (%)	6.10%
Renewable Power Plants	
Capacity	15MW AC
Market Value (Rs. million)	2413
Percentage of Gross Portfolio Market Value (%)	1%

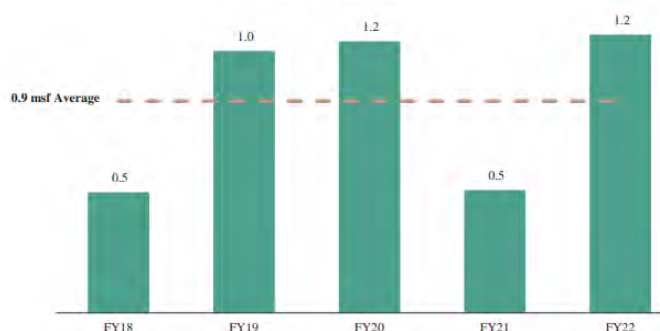
Tenant Profile

Rank	Brand Name	Trade Category	% of Gross Rentals
1	Lifestyle	Departmental Store	2.8%
2	Cinapolis	Entertainment	2.6%
3	PVR Cinemas	Entertainment	2.5%
4	Westside	Apparel and Accessories	2.1%
5	Zara	Apparel and Accessories	2.0%
6	Shoppers Stop	Departmental Store	1.8%
7	Max	Apparel and Accessories	1.7%
8	Smart Bazaar	Hypermarket	1.6%
9	Swedish Apparel Retailer Chain	Apparel and Accessories	1.6%
10	Reliance Trends	Apparel and Accessories	1.5%
Top Ten Total			20.2%

Tenant Sales (Rs. million)⁽¹⁾

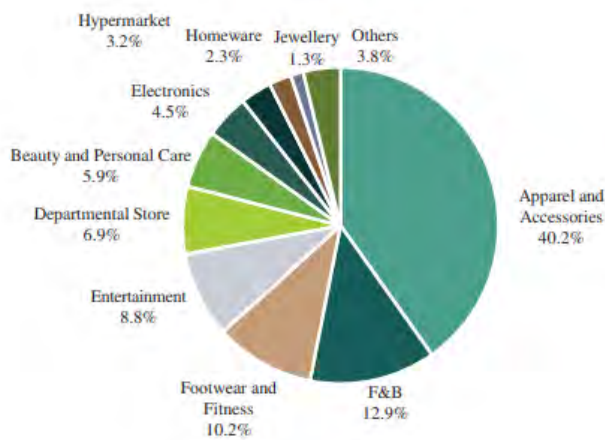


Annual Leasing (msf)

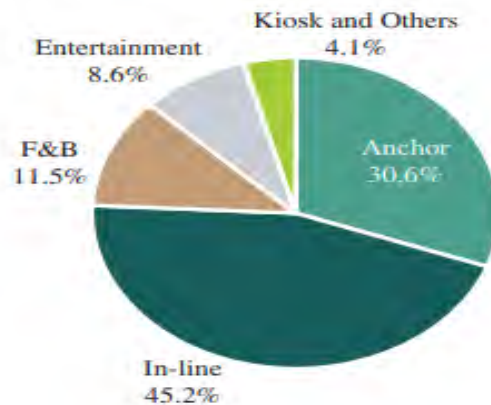




Gross Rentals from Tenants split by Trade Categories in the Month Ended December 31, 2022

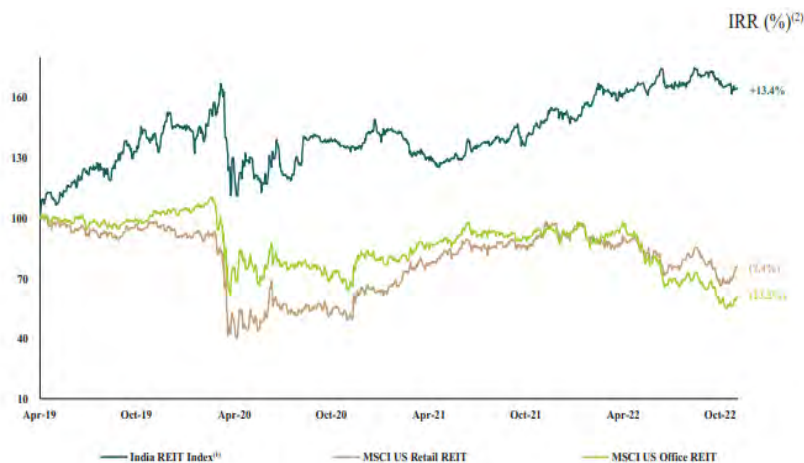


Gross Rentals from Anchor Versus In-line Tenants in the Month Ended December 31, 2022



Overview of REITs in India

Currently, there are three listed REITs in the Indian market, all of which are office REITs. As such, there is currently no listed retail REIT in India. Indian REITs have significantly outperformed its global peers, delivering an IRR of 13.4% since April 2019, outperforming US office REITs by 2,662 bps.



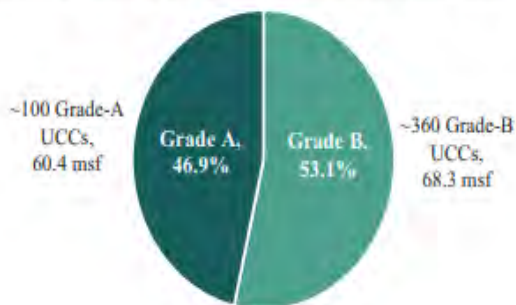


Overview of India Retail Real Estate

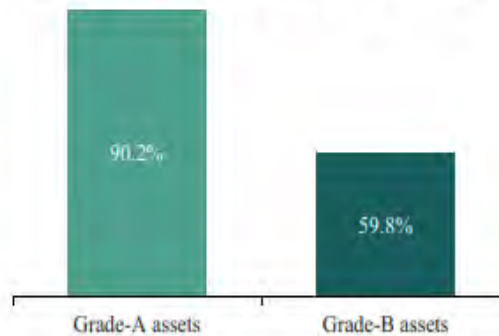
India is expected to witness continued demand for quality Grade-A retail assets, given new entrants in the country as well as expansion plans of existing retailers. Grade-A assets are typically single owner/institutionally owned, centrally located, full experience UCCs with well-designed circulation plans 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 strata sold, smaller in size, offering limited brands and amenities.

As of June 30, 2022, approximately 46.9% (approximately 100 UCCs, which represents 21.2% of total UCCs in India) of overall retail stock in India are classified as Grade-A and the occupancy for these Grade-A assets is 90.2% which is 3,032 bps higher than the occupancy of Grade-B assets.

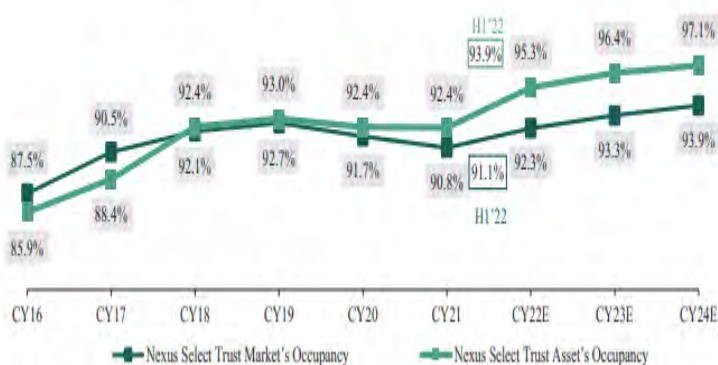
India Retail Assets—% of total retail stock¹



Occupancy of retail assets in India (%)²



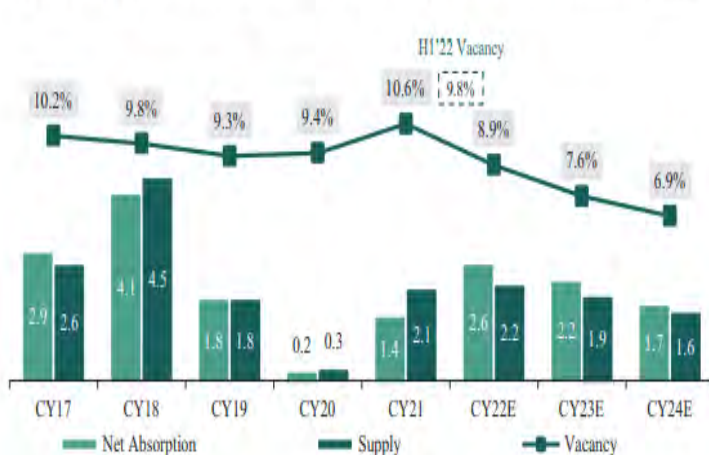
Y-o-Y Same-Store Committed Occupancy⁽¹⁾ (%) Trends



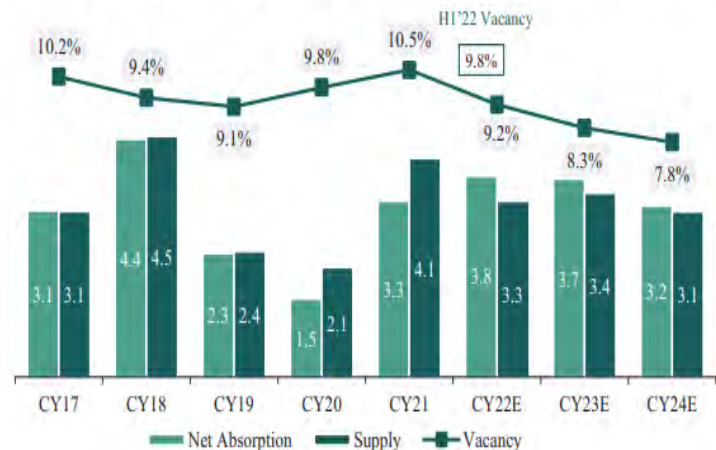
Leading consumption centre platforms in India—Completed Area (msf)



Y-o-Y Supply, Net Absorption (msf) & Vacancy (%) Trends (Portfolio Cities)



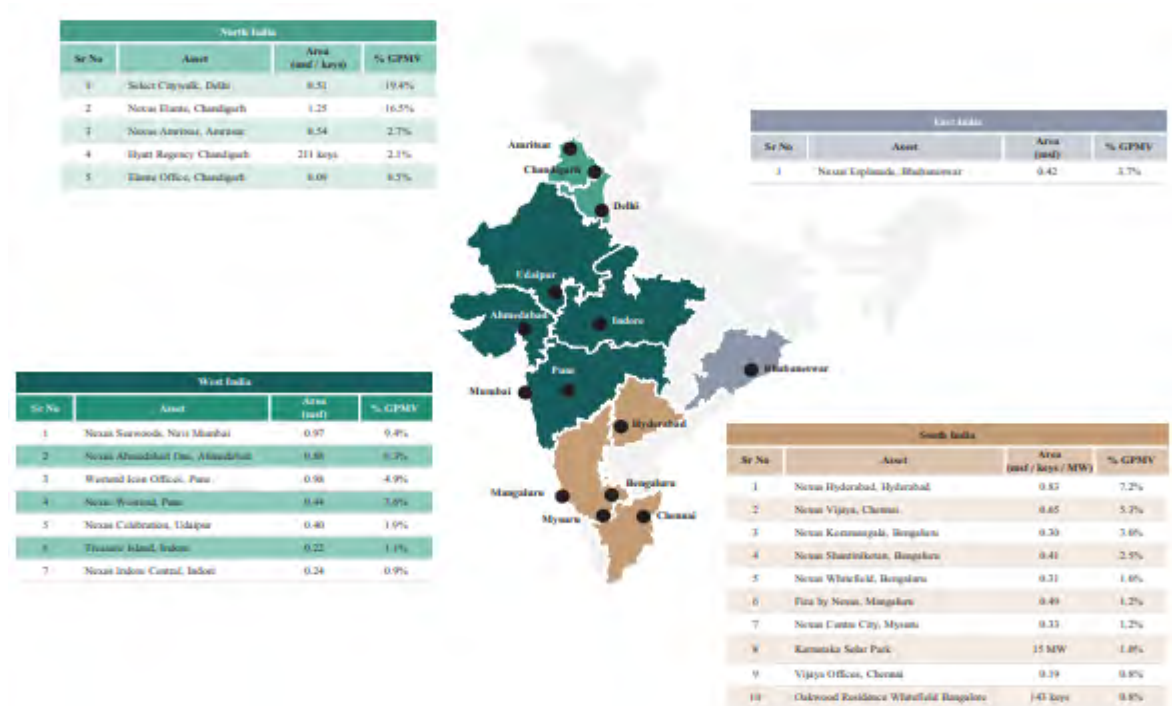
Y-o-Y Supply, Net Absorption (msf) & Vacancy (%) Trends (Top 35 cities)





Portfolio by Geography

Market Value of Portfolio as of December 31, 2022 as per the Valuer is Rs. 235 billion, as shown in further detail below.



Boards Members

Dalip Sehgal is the Non-Independent Director and the Chief Executive Officer of the manager, Jayen Naik is Chief Operations Officer of the manager, Nirzar Jain is Chief Leasing Officer of the Manager, Rajesh Deo is Chief Financial Officer.

Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Partial or full repayment or redemption of certain financial indebtedness of the Asset SPVs and the Investment Entity of Rs.250 Cr.
- Acquisition of stake and redemption of debt securities in certain Asset SPVs* of Rs. 1,050 Cr.
- General Corporate Purposes.

Companies Competitive Strength :

- 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 of India's 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 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.



Key Strategies Implemented by Company

- Capitalize on Portfolio's embedded organic growth opportunities.
- Proactive asset management driving growth in value.
- Disciplined acquisition strategy with a strong balance sheet.
- Grow their consumer healthcare business.

Financial

Particular (Rs. in Cr)	FY20	FY21	FY22	9MFY23
Total asset	9,528	8,959	9,090	8,990
Revenue	1,708	1,047	1,399	1,498
PAT	207	-199	-11	257
Reserve and surplus	976	341	389	639
Total Borrowing	5,956	6,281	6,331	5,872

Projected Financial

Particular (Rs. in Cr)	FY20	FY21	FY22	9MFY23	FY24E	FY25E	FY26E
Revenue from Operation	1,622	907	1,318	1,463	2,121	2,292	2,466
NOI	1,083	548	869	1,040	1,620	1,761	1,897
NOI Margins (%)	66.77%	60.42%	65.93%	71.09%	76.38%	76.83%	76.93%
EBITDA	1,077	613	858	934	1,521	1,654	1,790
Net Distribution cashflow	-	-	-	-	1,212	1,313	1,412
Pre-Tax Yeild (lower band)	-	-	-	-	8.08	8.75	9.41
Pre-Tax Yeild (Upper band)	-	-	-	-	8.51	9.21	9.91

Valuations and Recommendation:

- Nexus Select offers exposure to premium retail locations and the potential for increased consumer spending. At the upper band of ₹100/unit (the market cap of ₹15150 crore), the issue is at Price/NAV of 0.78x (December, 2022 NAV at ₹ 127.7/unit). It is offering pre-tax yield of 8% in FY24, at the upper price band.
- We assign **Subscribe** rating to the Issue based on its promising yield potential, as well as opportunities for organic growth through rent escalation, repricing, and leasing, as well as increased tenant sales.



Notes

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