"Nexus Select Trust

Q3 FY 2025 Earnings Conference Call"

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MANAGEMENT:
Mr. Dalip Sehgal – Executive Director & Chief Executive Officer
Mr. Pratik Dantara – Head, Investor Relations and Strategy
Mr. Rajesh Deo – Chief Financial Officer (CFO)
Mr. Nirzar Jain – Chief Leasing Officer (CLO)
Mr. Jayen Naik – Chief Operating Officer (COO)

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Nexus Select Trust for Q3 FY25.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone.

I now hand the conference over to Mr. Pratik Dantara, Head - Investor Relations and Strategy from Nexus Select Trust. Thank you and over to you, sir.

Pratik Dantara: Thank you. Good evening, everyone and thank you for joining the Earnings Conference Call of Nexus Select Trust for the quarter ended December 2024.

Before we proceed further, I would like to highlight that the management may make certain statements that may constitute forward-looking statements. Please be advised that our actual results may differ materially from these statements.

Nexus Select Trust does not guarantee these statements or results and is not obliged to update them at any point of time. Specifically, any financial guidance and pro forma information that we will provide on this call are management estimates based on certain assumptions and have not been subjected to any audit review examination procedures. You are cautioned not to place undue reliance on such information and there can be no assurance that we will be able to achieve the same.

Joining me today on the call are Dalip Sehgal – Executive Director and CEO, our CFO – Rajesh Deo, our COO – Jayen Naik and our Chief Leasing Officer – Mr. Nirzar Jain.

We will start off with a brief remarks on our Business and Financial Performance and then open the floor for questions. Over to you, Dalip.

Dalip Sehgal: Thank you, Pratik. Good evening, everyone. It is my pleasure to welcome you to the Earnings Conference call for the 3rd quarter of FY25 for Nexus Select Trust, India's First Listed Retail REIT.

Before we delve into our quarterly performance, I wanted to touch upon two important points.

The first One – The finance minister in her recent Budget speech, has proposed substantial tax relief measures, particularly exempting the income upto INR 12 lakh which we believe is a welcome move for the consumers and retail industry. The government expects to provide additional INR 1 lakh crore in the hands of the consumers through these measures, providing a notable boost to disposable incomes in the hands of the middle-income consumers, encouraging discretionary spending, influencing consumption trends and promoting overall economic growth.

The second one is on our performance over the last nine months which has remained resilient despite a challenging backdrop in consumption growth, I am sure most of you have seen the growth reported by other retail and consumer companies.

Now coming to our Q3 FY25 performance.

We witnessed strong financial performance in Q3 FY25 with net operating income growth of 6% year-on-year in an environment wherein consumption growth witnessed some green shoots after a soft first half. While these are early signs, we remain optimistic about improvement in consumption with the impetus provided by the government in the Union Budget.

On the back of this performance, we are delighted to announce our sixth distribution of INR 3,327 million translating to INR 2.196 per unit, up 10% year-on-year. With this distribution, we have cumulatively distributed ~INR 20.3 billion / INR 13.425 per unit and delivered total return of above 50% to our unitholders since listing.

In the current financial year, we have declared distribution of INR 6.35 per unit. For FY25, we expect the full year organic distribution to be approximately INR 8.4 per unit.

Now coming to our operational performance.

During the quarter, we witnessed consumption of INR 35 billion, which grew 6% year-on-year. We have observed quarter-on-quarter improvement in consumption and expect that this momentum will continue in the coming quarters. Our Q3 FY25 consumption growth is approximately 2.3x of the growth we reported for first half of the year.

Let me now share some category wise consumption trends with you that we are witnessing across our malls.

- Categories like Jewellery, watches, beauty and personal care and family entertainment centers witnessed strong growth in the quarter and continue to do well. We have been allocating additional space to these categories and will continue to do so going ahead.
- We have in the past indicated that we would focus on increasing the contribution of F&B within our portfolio. I am happy to report that in line with this objective, we have revamped Nexus Elante and Nexus Koramangala food court and enhanced brand offering which has resulted in increasing rentals by 2x in both the food courts.
- Fashion category also witnessed rebound in their sales this quarter with the onset of festive and wedding season.
- Finally, as most of you know, cinemas have come back strongly in this quarter with blockbuster releases.

Let me now walk you through our leasing and marketing performance

Leasing Performance: With strong demand from tenants, our leasing occupancy now stands at 97.6%. We have re-leased 0.31 million square feet at healthy spreads on the back of robust demand from tenants for quality Grade A retail spaces. This is also reflected in our YTD results wherein the releasing spreads have been upwards of 20%. Our lease expiry over the next three years is around 1 million square feet annually which cumulatively represents around 40% of our total rentals on which we are confident of achieving 20%+ spreads. We will also continue to proactively churn and resize underperforming categories.

The demand from international brands continues to be strong and we witnessed brands like Foot Locker, YSL Beaute, NARS, Nespresso, Apple, Massimo Dutti, Tim Hortons, Dyson, etc. who have opened their first store in our malls doing extremely well.

Marketing performance: We continue to invest in the technology and customer experiences in our malls to drive footfalls and sales growth. Our Nexus One App continues to be amongst one of the best shopping mall app in India with lifetime sales now clocking more than INR 1,000 crores. We have received very good traction on the app with 0.5 million consumer base who have contributed approximately 10% of consumption in these malls during Apr-Dec'24. Our repeat rate is more than 30% which is amongst the best in the industry.

In this quarter, our marketing team has curated and implemented around 17 experiential events like The Toy Factory, The Clown Town, The Jungle Tales, Winter Wonderland, The Polar Explorer, across our malls. We saw registrations for these events in excess of 1.2 lakhs which has helped augment footfalls in our malls.

Our size and scale also allow us to plan for pan India promotions. In this quarter, we published more than 300 print ads and launched multiple digital campaigns reaching half a billion eyeballs.

In previous quarter, we installed India's first twin stacked anamorphic cuboid screen in Nexus Hyderabad. I am pleased to tell you that we have installed two more anamorphic screens during this quarter in our malls with one in Nexus Seawoods, Navi Mumbai and other one in Nexus Vijaya, Chennai. In the coming months, we are planning to install four to five anamorphic screens across our other malls further solidifying our position as industry leaders in mall experiences. This initiative leverages an asset light model and given the technology risks; we kept our investments minimal.

These screens have revolutionized in-mall advertising and as we speak today, more than 15 brands have tied up with us for advertising. These have also opened a new income stream for us.

Now coming to the **Balance Sheet**: On debt, I am delighted to tell you that we have reduced our debt cost by 30 bps year-on-year, with annualized savings of INR 120 million. On the cost front, we're continuously rationalizing our operating costs. At the like-for-like level, the operating costs has increased just by approximately 3% year-on-year, and that's a testimony of the controls which we are trying to maintain at the cost level.

On our rental collections, I am pleased to report that we have been able to reduce these timelines for collection from 12 days from the billing date at listing to 5 days which is the lowest in our history.

ESG: On sustainability, we continue to lead the market with our ESG goals. Across our portfolio, approximately 43% of the energy requirement is met by renewable sources during nine months of this year (up by 1300 basis points year-on-year).

We are also proud to announce that we have been recognized as a 'Great Place to Work' for the fifth consecutive year which further solidifies our position as a modern leader, delivering outstanding value to all stakeholders.

Now let me share some updates on the proposed acquisitions

- Vega City mall acquisition was delayed due to certain administrative issues which are now being resolved. We are focused on getting the transaction to close soon and will keep you posted.
- On the North India acquisition, we are in the last phase of documentation and expect the transaction to close soon.

Lastly, summarizing our performance,

1. We witnessed green shoots in consumption growth in this quarter compared to the first half. Coupled with the proposed amendments in the union budget, we expect the consumption growth momentum to pick up.

2. Leasing demand for our assets continues to remain robust with favorable demand supply dynamics. We have over the last 9 months seen new brands entering into our malls which has helped premiumise our portfolio.

3. Our YoY NOI growth was 6% in Q3 FY25 with steady operating cashflows.

4. We have announced our sixth distribution of INR 2.196 per unit, up by 10% year-on-year. With this our cumulative distribution since listing is INR 13.425 per unit and the total return to unitholders is above 50%.

5. We are expecting to close the acquisition of Vega City mall soon and have a strong acquisition pipeline.

With this, let's now move on to the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Murtuza Arsiwalla from Kotak Securities.

Murtuza Arsiwalla: October was a little more favourable month, as i understand, from consumption. Can you give us a monthly break-up of how the consumption trends were for October, November, December? And if possible, how January is trending?

Dalip Sehgal: As far as the quarter is concerned, quarter 3 is typically the festival quarter. Honestly, a month-wise breakdown won't be very meaningful, as the timing of Diwali and Dussehra varied significantly between last year and this year, falling in two different months. I will look at combined consumption performance of October and November. and then will look at December.

So, if you look at October and November together consumption growth was around 6 percent and growth in December was also similar to October and November.

Murtuza Arsiwalla: Any sense we can get on how consumption is trending in January?

Dalip Sehgal: January was in-line with what we have witnessed in Q3 FY25. It's too early to comment upon growth forecast for Q4 FY25, given the recent budget announcements. Overall consumer sentiment may shift by the time people start seeing the generation of additional cash surplus. The inflow of money, along with the recent budget announcement, could influence the overall sentiments. It's still too early to comment upon. I'm not in the favour of looking at a monthly kind of growth. I think it's always better to look at a quarterly growth in a country like India, which is so vast, where festivals happen in different areas and months.

Murtuza Arsiwalla: Thank you so much.

Moderator: Thank you. The next question is from the line of Parvez Qazi from Nuvama Group.

Parvez Qazi: Hi, good afternoon. Thanks for taking my question and congratulations on a good set of numbers. So wanted to get some update about the proposed acquisitions in Hyderabad. So, what is happening there?

Pratik Dantara: On the proposed Hyderabad acquisition, we very recently received comments from the State government on the draft documents that we had submitted to them. At this point of time, our legal and commercial team are looking into those comments and we'll be able to share an update on the same once we've gone through those comments.

Parvez Qazi: Sure. Thanks, and all the best. Thank you.

Moderator: The next question is from the line of Pritesh Sheth from Axis Capital.

Pritesh Sheth: Hi, thanks and just a couple of questions. So, first on consumption, not trying to compare but just wanted to understand the difference. One of our peers reported 10% like for like growth, ours was 6%. Anything different in terms of how the mix of tenant is in our portfolio versus peers?

And second question is on consumption growth versus NOI growth. Generally, we have been a tad higher. Obviously, I don't want to look at it on every quarter basis but this time it was in line, consumption growth and NOI growth. So, what's the difference versus our past couple of quarters performance on that front versus this quarter?

Dalip Sehgal: Okay, let me answer, the first one that is on consumption growth. If you look carefully our peers has few new malls which were started operations in last two years. So for a like for like consumption growth you have to exclude these malls. As per our understanding, the like for like consumption growth for our peers will be between 6% and 7% which is in-line with our consumption growth for the quarter.

The key stabilized cities where both of us are present are Bangalore, Pune, Mumbai and Chennai. In Bangalore and Chennai, our consumption growth was twice of their growth in Q3 FY25. In Mumbai, consumption for both of us grew at same pace in Q3 FY25 including additional area that our peer has opened recently. In Pune, they have witnessed a surge in consumption growth of early double digit while we witnessed a flat growth in Q3 FY25 owing to impact of recently opened mall near our micro-market.

So that's really a healthy competition. I think on a like for like basis we have done better than our peers in consumption growth both in the quarter as well as nine months ended December 2024.

I don't want to get into too much of detail, but the fact is that I think the like for like growth in cities where both of us have malls for some period of time, I think we may be a shade better. I feel that the good news is that overall consumption for both of us has grown at 6% plus like for like. Maybe in their case, it may be a little bit better.

I do believe that it's the sustainability of whatever growth has happened in quarter three which is going to be key as we go forward. The pillar that will keep this growth momentum continue will be the INR 1 lakh crores of impetus that is coming into the hands of the consumer post the recent budget announcement.

Coming to part two of your question which was on NOI and Consumption growth. This quarter both grew at 6%. Earlier, the NOI growth used to be tad higher than consumption growth owing to incremental revenue share flowing into NOI. If you look at the growth for nine months ended December 2024, the NOI growth is higher than consumption growth in the same period. We have stated that in the past as well that if the consumption growth is a little lower, we will tend to have lower revenue share flowing to NOI.

It doesn't make too much of a difference but can make half a percent difference and that, in a sense, got covered in the earlier quarters. So, like for like, I think we've been trending at around 6% growth from quarter one onwards. Obviously, the consumption growth of 6% will mean an improved revenue share as we go forward.

Pritesh Sheth: Got it. That's pretty helpful, and thanks for the very detailed answer on the first one. That's it from my side and all the best.

Moderator: Thank you. The next question is from the line of Mohit Agrawal from IIFL Securities.

Mohit Agrawal: Thanks for the opportunity. My first question is if you could, for the third quarter, what has been the footfall growth?

Dalip Sehgal: Footfall growth was around 1% in the quarter.

Mohit Agrawal: Okay. My second question is on, you've highlighted the marketing initiatives that you are taking in your portfolio, and I see some of them are ticketed. You mentioned some revenues as well. So, is the objective to increase footfalls and thereby consumption growth, or do you plan to separately monetize these events in a meaningful way? And if yes, what can we expect as a share of the non-rental marketing events as a percentage of your total NOI or revenues? If you could give some color around that.

Dalip Sehgal: So, without getting into too many details, because this is just started. I think the whole attempt is to bring in better quality footfalls and more footfalls. So, any event that you do, there's a cost to it. So, let's assume last year we were doing events at about INR 100 per event. This year we are saying we will spend more, we will have better engagement, and we will spend INR 150. Where will that INR 50 come from? Part of it will come from ticketing and believe me, some of these experiences are so different that both kids and parents are more than willing to do it. How large will all of this become? We'll have to see as we go along. I think it's still early days. But the fact is that there are 3-4 streams of non-rental marketing income. There is space on hire where we provide space to brands for advertisements both within the mall and on the facade of the mall. So that is an income stream.

Some of these ticketed events will become larger income streams going forward. But in my view, large part of this business, maybe about 90% plus, will still be lease rentals. But the balance 10%, we would obviously attempt to grow as we go forward.

Mohit Agrawal: Understood. And my last question is on your acquisition strategy. So, beyond the Vega City and the Hyderabad and the other North asset, how is the pipeline currently looking like? And just trying to get an update that we had a target of adding about 2 to 3 malls every year. So how do you see the pipeline shaping up in terms of availability of assets and the valuations? If you could update on that as well.

Pratik Dantara: The pipeline is looking pretty strong at the moment. We need to close what's on hand at the moment with us. So, focus is on that. At the same time, there are about 3 or 4 more assets that we are engaging with and hopefully that should kind of consummate the pipeline for the next year. So, I think pretty much on track, a little delayed to start off with. But once that starts, I think the flow should be more linear.

Mohit Agrawal: So, the 2, 3 malls that you are looking at beyond this would be hopefully closed in FY26, right?

Pratik Dantara: Yes.

Mohit Agrawal: Okay, understood. Thanks a lot. Those were my questions. All the best.

Moderator: Thank you. The next question is from the line of Arya Mehta from Maximal Capital.

Arya Mehta: Yes, good evening, sir. So, on the pipeline question, so apart from these three malls totalling 1.3 million square feet, I mean, are there any confirmed entrances to this pipeline? Because this has been this way for the past few quarters, I guess. So, are there other possible acquisitions that have gone into the slightly more advanced stage that you can throw some color on?

Pratik Dantara: These announced acquisitions in the sense Vega City, the Hyderabad malls and the North India acquisitions are in total of about 1.8 million square feet. Apart from that, like I spoke about earlier, there are a few more acquisitions that are in the pipeline. I wouldn't be able to give out too many details at this point of time because these are bilateral conversations. So, at this point of time, let's just keep it at 1.8 million that we've announced. We are looking to kind of closely those.

Dalip Sehgal: And that meets the target that we have set for ourselves, which is within 4-5 year period, to double the portfolio.

Arya Mehta: Okay. So, you seem well on track on doing that. So, there are no changes to that.

Dalip Sehgal: Yes on track though it can be lumpy at times. Some of these delays are very, very unexpected and unfortunate, but I guess at a state level, these things can happen. But sufficed to say that we are on top of it.

Arya Mehta: There's a little bit of slowdown that we have seen in the consumption. Is it sort of a little bit of positive for us to sort of go and talk to the potential sellers? Are they more willing now because of this?

Pratik Dantara: Not really. In a sense, somewhere it does matter. But ultimately, from our standpoint, it's more about long-term, whether we see that asset that can be turn around, what value-add can we do from that asset. From a seller's standpoint, I think, frankly, it all boils down to what valuations we offer them.

So, while there may be temporary blips and people understand consumption slowdown, maybe a good time to start conversation, but some of these narratives change pretty quickly. So, it's not necessarily the only point on their minds.

Arya Mehta: On the nine-month numbers, the NOI growth has been 6% for the entire nine months?

Dalip Sehgal: Yes.

Arya Mehta: So then, how should we model this thing? Because, say, for nine-month, we have got 6%, but then the DPU growth is tracking only 4%, adjusted for the 10.5 months for last year and in this quarter, again, we have done 6%, but we have got 10% DPU growth. So how do we sort of model the NOI growth versus the DPU growth? Because these two numbers are not sort of matching.

Pratik Dantara: So, I would suggest you just look at the nine-month number. That's probably, directionally, where it should be. Obviously, within a quarter, it could be a little different. But I think, directionally, NOI growth and DPU growth should kind of track.

Dalip Sehgal: And at INR 8.4 per unit, which is what we think we'll end up, is around a 5-6% growth over last year, annualized, which is in line with the NOI growth.

Pratik Dantara: And just the whole piece around NOI growth, you need to kind of also factor in that we kind of, at this point of time, have some bit of negative carry on the funds that we've raised for Vega City acquisition. So, the deal should get done very, very soon now. But it's just that that fund is having a negative carry today.

Arya Mehta: And I think part of it has also increased to 75% odd, I think last quarter, it was 72%, if I'm not wrong. So, I mean, going forward, should this be the new normal or how should we sort of model that in?

Dalip Sehgal: Around 74%-75% of NOI margin

Arya Mehta: Understood, thank you and all the best.

Moderator: Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking.

Biplab Debbarma: Good evening, everyone. So, my first question is, looking at all the narrative and macro scenario so far, how do you see this 5%-6% consumption growth year-on-year? So, should we see this as a good consumption growth looking at the current scenario? Is it good, bad, or ugly? How do I see the consumption?

Dalip Sehgal: So, I think you have to put it in perspective of what has happened in the first half of the year where I said that the growth was less than 3%, we're now at 6%. If you take a period of 5 years pre-COVID and see the average consumption growth, it's around 7-8%. So, if you see what the long-term trend is, it's around 7-8% depending year-on-year what the inflation rates, interest rates etc. have been.

Was there an issue in terms of consumption? I think that's clearly there and the fact that, the government and the finance minister recognized it. It's not every day that, government will put impetus of INR 1 lakh crores in the hands of consumers. So, to answer your question, is 6% good, bad, ugly? I think it depends entirely on what is the context. I think once the money starts flowing into the hands of the consumers, then we'll have to see, is 6% good enough?

Should it be better, etc.? and how long will it take for that to actually fructify in terms of improved consumption.

Biplab Debbarma: Okay. So, something like 8%-9%, say, next few quarters, you report 8%, 9% or 10%, or something like that, more than 7%. Then we should consider that as a good consumption growth.

Dalip Sehgal: Now, 9% or 10%, has never happened in the past, except post-COVID, when obviously 2 years there was nothing. So, I'm saying the long-term trend is 7%-7.5%. We're currently at 6%. and I would not speculate, but I presume that if all this money comes into circulation, we should see an improvement. How much and when? I think time will tell. But I would not hazard a guess to say, will it be 10% or 12%? That we don't know.

Biplab Debbarma: Okay, fair enough. So just one more question. Regarding Hyderabad Mall, I believe you mentioned some comments from government. How is government involved in that acquisition of Hyderabad Mall?

Pratik Dantara: The malls are next to the metro that the government and seller have kind of jointly developed.

Biplab Debbarma: So, government has some stake into the mall. Is it?

Pratik Dantara: No, they have given the mall space on lease to the seller. They have to give an NOC for transfer of the lease.

Biplab Debbarma: Okay. Thanks. That's all.

Moderator: Thank you. The next question is from the line of Jatin from Bank of America.

Jatin: Hi. Thanks for the opportunity. Most of my questions have been answered. But just a quick one. Would you be able to break down the nine months NOI growth into the usual components, rental escalations, MTM, and revenue share?

Rajesh Deo: So, like Dalip Sir mentioned, around 4%-4.5% comes from rental escalation. This year in particular, there was 8 lakhs square feet which was supposed to expire. We have made a re-leasing spread of 20% on around 0.7 million square feet. So that's around 1% -1.5%. So that's 5% - 6% and the revenue share is flat. This was the NOI break-up for the nine months

Jatin: Okay, great. That's very helpful. Thanks. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Pratik Dantara for closing comments.

Pratik Dantara: Thank you everyone for joining the call. If you have any further questions, do reach out to us and the IR team. Thank you.

Moderator: On behalf of Nexus Select Trust, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Disclaimer – The transcript has been edited for language and grammar, it however may not be a verbatim representation of the call