Nexus Select Trust

"Nexus Select Trust

Q4 FY24 & FY24 Earnings Conference Call"

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Nexus Select Trust

CHORUS CALL

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

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Nexus Select Trust for Q4 FY24 and FY24.

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

Please note that this conference is being recorded. 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: Good evening, everyone and thank you for joining the Earnings Conference Call of Nexus Select Trust for quarter ended March 2024 and financial year ended 2024.

At this point, 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 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 are Dalip Sehgal, Executive Director and CEO, our CFO, Mr. Rajesh Deo, our COO, Jayen Naik and Chief Leasing Officer, Mr. Nirzar Jain.

We will start off with brief remarks on our business and financial performance and then open the floor to questions. Over to you, Dalip.

Dalip Sehgal: Thank you, Pratik. Good evening, everybody and thanks for taking the time out.

My pleasure to welcome you all to the Earnings Update Call for the Fourth Quarter of Financial Year 2024 for the Nexus Select Trust, India's first retail REIT.

Before we delve into the performance, I wanted to spend a couple of minutes on the emerging macro trends in the retail real estate landscape in India. I think this would be useful as a backdrop.

To start with, I would state that the longer-term fundamentals continue to be very robust due to favorable demand-supply dynamics driven by essentially four things and let me take you through each one of them.

1. Number one, within the 14 cities that we operate in, the Grade-A demand-supply dynamics remains extremely favorable for us with virtually no Grade-A supply of new space coming into any of our markets in the next three years. So that's one.
2. Our retail portfolio today stands up at 97.6% which is about 480 basis points above the market. This is on the back of high-quality mall infrastructure, infill city centre locations and best-in-class if I may say so, myself, management team.

3. International brands continue to expand their presence in India with ~25 new brands expected to enter in the calendar year 2024. India remains on top of the radar of international brands like Zara Home, Foot Locker, Galeries Lafayette, D&G, Sandro, etc.. Dockers, YSL, Gucci Beauty etc. Some of them are in discussion with us to open their first store in the country. Recently, a brand called NARS, which is from the Shiseido group in Japan, opened their first store in Nexus Select Citywalk and is doing extremely well.

4. The fourth one is about D2C brands, brands like Nykaa, Lenskart, etc.., which were basically online players have gone and opened stores and continue to do so quite substantially.
   So, Nykaa, for example, has more than 170 physical stores, Mama Earth in a very short period of time has done more than 170 stores and so has Lenskart and Caratlane, and all of these are the known D2C brands. We are also seeing some of the smaller D2C brands now going into an omni-channel kind of a model. So, that's the fourth area as to why we believe that the short to mid-term future is still very, very strong.

Now, getting into our performance for the full year. Financial Year 2024, has been an excellent year for us with strong operating and financial performance. We have achieved our projections for FY24 as were disclosed in our final offer document and have ended the year with strong sales growth of 13% and a net operating income growth of 16%. Let me just reiterate, strong sales growth of 13% and very strong NOI growth of 16%.

Our footfall growth during the year has been 7%, which if you remember in FY23, there was hardly any footfall growth in any of the malls. This year, the footfall increase has happened through multiple marketing initiatives, festival celebrations, category-specific promotions and so on and so forth. This is important because the whole year, like I said, FY23, while sales were good, footfall growth had been almost negligible.

On the back of this strong operating financial performance, we are delighted to announce the third distribution of INR 3,168 million, translating into INR 2.09 per unit. Let me reiterate, third distribution of INR 3,168 million, translating into INR 2.09 per unit, which is ahead of our guidance and represents a 100% payout as we had indeed said at the time of the IPO. Our total distribution for the period from the date of listing to 31st March 2024 now stands at INR 10,719 million, translating into INR 7.08 per unit.

The NAV of our portfolio has increased to INR 145 per unit. Our total unitholder base since Q1 FY24 is also up ~50% and we have been included in the key global indices such as MSCI and FTSE.

Let me share some category trends with you which we are witnessing across our malls.

Categories like jewellery, electronics, beauty, personal care, family entertainment centres continue to do well. We have been allocating additional space to these categories and will continue to do so going ahead. In line with last couple of quarters, we are witnessing moderate growth in certain value fashion brands.

I think all of us are aware of the fact that while there is some pressure in terms of growth, I am sure that as we go into the second half of FY25 , this will also improve substantially.

Let me now take you through some details of our performance in the fourth quarter.

1. We closed the fourth quarter with tenant sales of INR 28 billion and clocked a growth of 9% year on year and remember, this is coming on a very high base of the previous year same quarter.

2. In our key markets of Mumbai, Bangalore, Chennai, we have witnessed growth much ahead of the market. In these markets, we have witnessed very strong double-digit growth versus the market which is in mid to single high digits.

3. Occupancy and demand continue to remain strong with most of our malls having a healthy wait list of brands like I mentioned earlier.

4. At a consolidated level, our net operating income stood at INR 4.2 billion reflecting a 13% year-on-year growth. So, 9% growth on top line and a 13% profit growth.

Let me now walk you through two very critical parts of our business which is leasing and marketing.

Leasing strategy: With strong demand from tenants, our leasing occupancy now stands like I said earlier at an all time high of 97.6% which is 130 basis higher than where we were last year same time. We ensure timely openings of our stores and our trading occupancy now stands at ~96%. In FY24, we have leased 1.1 million square feet out of which 0.6 million square feet is area released on expiry, 0.2 million square feet is area released before expiry through active tenant discussions and the balance is fresh leasing. We have achieved 21% releasing spread in FY24 on 0.8 million of released space which is in line with what we had indicated in our final offer document filed with SEBI. If you remember in our final offer document, we had said we will get a releasing spread of about 20%. We have done better than that. We have a stable leasing expiry profile with average annual expiry of about 0.8 million square feet over the next three years and roughly about 10% of our rentals come up for renewal every year and hence we are fairly confident of achieving more than the 20% releasing spread that we had indicated at the time of the final offer document. We will continue to proactively churn and resize underperforming categories for brands ahead of this expiry.

On slide 20 of our presentation which has been circulated to you, we have presented a few cases where we have achieved significant releasing spreads through active lease management during contract tenures.

This was on leasing. Coming to marketing and our activation strategy which is very critical. Remember, we have 130 million footfalls across our assets.

Marketing strategy: Our size and scale allows us to plan for pan India promotions. In FY24, we published more than a thousand print ads because as part of our acquisition strategy we actually invest behind not just upgrading the assets, but also in terms of marketing to bring in better quality and more footfalls. We also launched multiple digital campaigns reaching 600 million eyeballs. During this year, we kept our focus on promoting several categories through initiatives like Gloss Box, Techstination, Denim Fest, Sneaker Fest, etc.

We also, if you remember, had Mr. Bachchan as our brand ambassador till recently and that also helped us in our growth strategy for last year. We also organized multiple ticketed events in FY24. All this, like I said resulted in more than a 7% growth compared to last year.

We are now thrilled to reintroduce Ayushmann Khurrana who used to be our happyness ambassador. He is back with us and his captivating persona not only adds credibility to Nexus, but also resonates a commitment to spreading joy and happiness. As you know, Ayushmann has exceptional entertainment skills making him the perfect fit for Nexus pursuit of happyness. Join us in embracing this infectious energy as we set out to regale our customers with his performances across our malls and we embark on a journey filled with smiles and positivity.

Also, I think one very important technology initiative that we have extended to eight malls in total is the Nexus One app. I think we spoke about it last time as well. We do believe that technology will be a big differentiator for our business as we go into FY25 and beyond. We have received very good traction on the app with more than 2,30,000 downloads, 1,65,000 signups and consumers who have contributed 7.4% of tenant sales in these malls in very early time. We will expand this to all our malls in FY25. This will give us not only very rich consumer insight and data but will also help consumers in terms of both figuring out way finding. So, if you are in a million square feet mall and you want to know where we buy, the app actually directs you like Google Maps does to where the store is. We also have a loyalty program in the app. So, if consumers can upload their bills and then they can over a period of time build points and then redeem them.

Coming to part two of my speech, this is about the business model.

As you are aware our business model is unique and different. We acquire assets that have been either under-invested and or under-managed. With our capability to invest in upgrading assets, bringing in relevant brands, investing in appropriate marketing, reducing costs given scale, we are able to significantly enhance the value of the acquired assets.

The acquisition of three malls in South India which is now as we all know in Hyderabad that we have been indicating is now in the advanced stages and expected to close soon post obtaining regulatory approvals. Considering the low LTV of 14%, the acquisition would be fully funded by debt without any equity dilution. We intend to leverage our in-house expertise and skills to turn around these three malls. We have already started planning for the integration and the strategic initiatives have been identified. We expect the acquisition to be DPU accretive from FY26 onwards.

Talking about our robust balance sheet, we are armed with a watch list of close to a billion dollars for acquisitions on the back of a low LTV of 14% something that we had mentioned at the time of the IPO as well. We have recently refinanced debt of about INR 9.5 billion at a debt cost of 8.1%

resulting in an annual saving of INR 40 million. With this, our in-place average debt cost has reduced by 10 bps to 8.1% with dual AAA stable credit rating. So, that's a big achievement.

We have also recently strengthened our management team and inducted Mr. Gautam Vaswani, who joins us as Head of Business Development and Expansion. He is a veteran in the retail real estate sector with experience of over 28 years and has been involved in 20 retail-centric assets at various stages of development. So, welcome to Gautam.

ESG continues to be an area of focus. Currently, we have over 38 megawatts of renewable energy capacity installed. During the last year, we commissioned a 4.2 megawatt hybrid solar and wind power energy plant to generate over 75% of renewable energy consumption at Nexus Ahmedabad One.

Further, our 3.3 megawatt wind energy plant in Chennai has also been completed which will result in cost saving of approximately INR70 million per annum and will give a yield of over 20% on our investment. The project commissioning will go live in this quarter.

To summarize now and to end, our FY24 performance has been excellent and the outlook for FY25 looks good.

1. Leasing demand for our assets continues to remain robust with both international and domestic tenants expanding their footprints and favorable demand-supply dynamics
2. Consumption growth in FY'24 has been resilient at 13%
3. Our NOI growth was 16% in line with our guidance and we expect to achieve our numbers for FY25 as were disclosed in the final offer document filed at the time of listing
4. We have now announced our third distribution of INR 2.09 per unit taking our full year distribution to INR 7.08 per unit outperforming our guidance. For FY25, we expect distribution growth to be 9%-10% over the full year FY24 number mentioned in the final offer document at the time of listing
5. Lastly, our strategy for inorganic growth in the portfolio is active with a healthy acquisition pipeline and a strong management team which gets further strengthened with the joining of Gautam. We look forward to closing Hyderabad acquisition post obtaining regulatory approval.

Once again, I thank you all for your continued support and belief in our path of growth and value creation. With this, let's now move on to the Q&A.

Moderator: The first question is from the line of Akshay Kothari from JHP. Please go ahead.

Akshay Kothari: Yes, thanks for the opportunity and congratulations on meeting all the guidance. Sir, what would be your LTV post acquisition?

Dalip Sehgal: Post the Hyderabad acquisition?

Akshay Kothari: Yes.

Dalip Sehgal: Okay, let me hand it over to Pratik.

Pratik Dantara: Hi Akshay. It would be around 17%-18%.

Akshay Kothari: Okay, so still we would be having a lot of headroom.

Dalip Sehgal: Yes, we currently are at 14%, so even at 18%, we have enough headroom.

Akshay Kothari: Okay. Sir, pardon me for my ignorance. I am pretty new to this sector, but in a scenario wherein interest cost goes up and rising interest rate scenario, our borrowings would be going up, but since we are having pretty less borrowing, so we would be pretty much insulated, right? The distribution per unit would not be dropping, right?

Pratik Dantara: So, in a rising interest scenario, the interest cost, debt cost obviously goes up, which impacts the absolute distribution. But like you said, we have budgeted for interest cost. When we did our IPO, we have budgeted for interest cost at 8.5%. We have ended FY24 with interest cost of 8.1%. So, we are already ahead in terms of our interest cost savings.

Akshay Kothari: Another question. Is there some element of seasonality? Because in last quarter, our trading density was around 1800 and this quarter it is around 1500.

Dalip Sehgal: Very good question. Yes, it is indeed there because if you know, quarter 3 is when we have all the festivals in India, Dussehra, Diwali, we also have Christmas, New Year. So, yes, that is typically the best quarter in terms of absolute values and trading density for the retail industry. Absolutely right.

Akshay Kothari: So, we can expect that quarter 3, the distributions also could be much more than the rest of the quarters.

Dalip Sehgal: That would be speculative. We do not want to get into that. All that we are saying is that as far as FY'25 is concerned, whatever we had put down in our final offer document, we should be able to meet that.

Akshay Kothari: And so, I was just reading the DRHP as well and we have mentioned that UCCs have a lot of advantages compared to high street and other grade B, grade C malls. So, what is generally the premium which our grade A malls would be trading compared to high street?

Dalip Sehgal: Okay. Nirzar, can you take this question?

Nirzar Jain: Sure. Hi, this is Nirzar. In terms of trading, I think different high streets behave differently. But at an overall level, I think malls trade better. There may be individual examples of some high street or some locations doing better. But generally, the malls bring a different experience to the fold and trade at least 15% to 20% better.

Akshay Kothari: Thanks a lot and all the best.

Dalip Sehgal: Thank you so much. Thank you for your question.

Moderator: Thank you. We take the next question from the line of Jatin from Bank of America. Please go ahead.

Jatin: Hi. Thanks for the opportunity. My first question, could you please help us revisit the breakup of NOI growth that you saw in FY24 of 16% say in terms of vacant area lease up, new rent commencement that were due, MTM and incremental revenue share and similarly for FY'25 guidance if you could help break that as well into these components.

Dalip Sehgal: Okay, I'm going to ask Rajesh to take this one.

Rajesh Deo: So out of the 16%, broadly three-forth (12%) is coming in from rental increase and balance is coming in from non-rental revenue like marketing, parking, common area maintenance expenses. Out of this 12%, 4% is contractual escalation, 4% is MTM and revenue share and balance is occupancy ramp up. .

Pratik Dantara: And Jatin, for the FY25 projections, I would say that it's about 9% NOI growth for us. I think like we've indicated in the past, about 5% will come from contractual escalations. 10% of our rentals expire every year if you see our expiry schedule that what we've disclosed. We earn a 20% mark-to-market on that. So, you get 2% growth there. So, 5% plus 2% is 7%. The balance 2% comes in from a combination of rev share and other initiatives and other assets like office and hotels. So that gives you another 2%. So that's the 9% growth breakup for FY25.

Jatin: I understood. Thanks. Thanks a lot. That was really helpful. Second question, do you think consumption growth bottomed out for you last quarter at 8% odd and it could accelerate from here on? I mean, some of your malls are growing consumption at double digit and you would be expecting some of the remaining malls to play catch up as well. I'm guessing some of those are the Bangalore ones. So, could the consumption growth accelerate from here on?

Dalip Sehgal: So let me answer this in two parts. The first one, obviously, is the fact that I think our overall consumption growth has been very healthy, both in FY24 as well as in quarter four. In terms of is it bottomed out? I'm honestly not very clear what would you mean by that. If I look at the fundamentals of how consumption operates, as long as the GDP growth is upwards of 6%, inflation is below 6%, there is no reason why you would not see in India a consumption growth of high single digits. There is no reason at all, whichever be the category.

So, my sense is that first of all, I don't know bottoming out, but the fact is that I think the macros all indicate that the growth in FY25 should be good. There may be some amount of variance that happens between months and quarters, depending on various scenarios. But overall, I think, like we have said, I think we will more than meet our projections for FY25 as far as consumption is concerned.

Jatin: I understood. Great. That's really helpful. And thank you a lot.

Dalip Sehgal: Thank you. Thank you so much for your questions. Thank you.

Moderator: Thank you. The next question is from Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: Hi, good afternoon and thanks for taking my question. So, first question is, I'm sorry, I missed the number for the footfall growth that you had given for FY24.

Dalip Sehgal: 7%.

Parvez Qazi: Secondly, I mean, beyond the Hyderabad mall, what is our outlook towards future acquisition? Would we continue to target let's say a million square feet number every year or I mean, we can aim higher also?

Dalip Sehgal: Sure. So, let me just take this on. I think at the time of the listing, we had basically indicated that over the last six, seven years, we've added roughly one and a half million square feet to our portfolio every year. And we do think that's possible as we go forward into the next five years as well. As far as apart from the three Hyderabad malls are concerned, yes, I think we have interest from other developers as well. Just to reiterate, India has about 110 odd A grade malls, out of which 45- 50 are with, the established players .

And the rest, which is about 60 odd, are with developers who have a single or maybe a couple of assets and for them, as you know, the mall business is not core to what they do. So, it is possible that they would look to sell. So, that is our catchment really in terms of from where we acquire. And I think we have fairly good traction. Also, I think for a single mall owner to be part of a much larger, let's say portfolio is beneficial because you're de-risking your business from being a single mall owner to being, part of a much larger group. I think our management skills and capability because we have size and scale is also very good.

And REIT as an instrument allows people to convert their physical assets into financial assets without any implication as far as capital gains tax is concerned. Also, the distribution is almost two-thirds tax-free. So, from all perspectives, I think REIT is a good instrument for people to roll in and we do hope and expect that over a period of time, they will continue to do so.

Parvez Qazi: Sure. And lastly, any thoughts about Greenfield retail development?

Dalip Sehgal: So, we are not averse to it. I think we must recognize the fact that our core model is still acquisition, but there could be markets or there could be opportunities where it makes a lot of sense for us to at least evaluate Greenfield projects or Brownfield projects and we would certainly do that.

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

Dalip Sehgal: Thank you so much for your question. Thank you, Parvez.

Moderator: Thank you. The next question is from Praveen Choudhury from Morgan Stanley. Please go ahead.

Praveen Choudhary: I just wanted to congratulate you for good results and also thank you for taking my question. I have two questions. The first one is related to the DPU guidance for FY 25. If I look at the fourth quarter number and analyze it, from that point to FY25 growth, I just wanted to get what will that be to the midpoint of your guidance. And it sounds like you can beat that based on the trajectory of consumption. So, I just wanted to see if low expectation and actual reality could be better.

So, that's on FY25 DPU growth. And the second question I have is, there has been some consumption downgrade in certain areas. I understand in malls things are better. I just wanted to understand how do you see overall consumption trend in India and the impact on your business. Thank you so much.

Dalip Sehgal: Okay. Let me take the second question first and then I'll pass it on to Pratik to answer your first question. As far as consumption is concerned, you've seen the numbers. I think at 13% odd, it's pretty decent. Even last quarter at 9% was pretty good. Like I mentioned earlier in answer to some other question, as long as the macro indicators in India are good, you have GDP growth in excess of 6% and you have inflation below 6%, fiscal deficit at 4% or 5%, I think we are in for a very good consumption period in the years to come. There will always be some variances that may happen from month to month or quarter to quarter. But I think mid to long term, the outlook on consumption is still very, very strong. You do a simple number and you say if inflation for our kind of products is between 5% and 6% and real GDP growth is at least 6%, then you're looking at high single digit growth, at least as far as consumption is concerned. So, to answer your question, I think we will still see a pretty strong growth as we go forward.

Pratik Dantara: So, Praveen, I think let me try and answer this in two parts on the DPU front. We've distributed about INR 2 per unit every quarter. That would mean about INR 8 annually and INR 8.7-8.8 guidance would mean a 9-10% growth over that. The other way to cut data would be if you take it from the period of listing and you annualize the number of INR 7.08 per unit you get to a number of about INR 8.15 per unit and an INR 8.7-8.8 on an INR 8.15 would mean a 7-8% growth. So that's how we would probably try and cut data on the DPU front.

Dalip Sehgal: And this is all organic growth. This is no bolt-on, no acquisition. It's all organic.

Praveen Choudhary: Thank you for that. Can I follow up on that acquisition then? You did mention that there are 60 malls out there that can be a candidate for a very robust balance sheet. How do you understand the urgency and the timeline on an annual basis if that's where the growth is coming from in terms of acquisitions?

Dalip Sehgal: Sorry, I think your voice is not... Praveen, if you could just repeat what... The last bit we didn't understand.

Praveen Choudhary: Yes, let me repeat. I was asking the question about acquisitions. And because you said you have 60 malls out there who you can acquire, I just want to understand the speed at which you want to do that. Obviously, pricing is very important, but given the pricing is better, would you be doing it one mall a year, one million square feet a year? What is your steady state growth through acquisition

Dalip Sehgal: Okay. I think if you reflect back on what we said same time last year at the time of the final offer document, we had basically indicated that over the last six, seven years, Nexus as a platform has added one and a half million square feet a year. We would hope to, there's no guidance or anything here to add at least a similar number as we go forward into the next three to five years.

So that is part one. On your Greenfield question, like I said earlier, I think in some cases where there may not be anything up for acquisition, and still, it's a very important market for us, we may look to do Greenfield as well.

Praveen Choudhary: Okay, that's very clear. Thank you. Thank you so much.

Moderator: Thanks, Praveen. Thank you. Thank you very much. That was the last question in queue. I'd like to hand the conference back to the management team for any closing comments.

Pratik Dantara: Thank you everyone for joining. If you have any further questions to reach out to us, we'll be happy to answer. Thank you.

Moderator: Thank you. On behalf of Nexus Select Trust, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.