"Nexus Select Trust
Q1 FY2025 Earnings Conference Call"

July 30, 2024

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. 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 Q1 FY25.

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 conference call, please signal an operator by pressing star then zero on your touch-tone phone.

I now hand the conference over to Mr. Pratik Dantara, Head of 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 June 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 – Rajesh Deo, our COO – Jayen Naik and our Chief Leasing Officer – Mr. Nirzar Jain.

We will start off with 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's my pleasure to welcome you to the Earnings Update Call for the 1st Quarter of FY25 for Nexus Select Trust, India's only listed retail REIT.

Before we delve into our performance for the quarter, I wanted to spend a few minutes on the macro trends in India.

I think all of you are familiar with the fact that the macroeconomic factors continue to remain favorable with inflation being around 5% under control and GDP growth around 7%. The retail real estate fundamentals continue to be robust in our markets with favorable demand-supply dynamics.

So, in short, I think the inherent consumption growth story for India is still very much intact. We may see some hiccups in the short term, but overall, I think the consumption story is very much intact.

We are today the second largest REIT by market cap in the country. We started with an investor base of about 24,000 unitholders, which over the last 12 months has consistently increased and now stands at around 39,000. We would like to thank all our investors in showing faith in us.

Our next phase of growth will be fueled by acquisitions, and we have made good progress there.

- In the past, we have announced acquisition of three malls in South India, which is in Hyderabad, which is now in an advanced stage and expected to close soon post obtaining regulatory approvals. As indicated earlier, this will be fully funded by debt.
- Additionally, we have signed two term sheets for the acquisition of 0.8 million square feet retail assets. One of these is in the Northern and the other in the Southern part of the country. We have commenced due diligence on these assets, and we expect these transactions to close over the next few months. We expect both these acquisitions to be funded by debt.

Now, coming to our Q1 FY25 Performance:

We witnessed robust retail net operating income growth of 8% YoY despite a soft market backdrop. On the back of this strong financial performance, we are delighted to announce our fourth distribution of INR 3,253 million translating to INR 2.147 per unit, which is in-line with our projections and represents approximately 100% payout.

During the quarter, we witnessed tenant sales of INR 30 billion, which is a growth of 3% YoY from a high base of last year. April and May months were soft on account of the fact that we had general elections, prolonged heat wave and IPL which impacted footfalls and tenant sales. However, in the month of June, we witnessed sequential improvement in footfalls and tenant sales, our tenant sales growth was around 6% for the month of June.

In terms of categories that have done well, large part of the growth has been in electronics and Jewellery categories. There is still some way to go as far as fashion is concerned which is still a bit slow. But I am confident that in the second half of the year as we are entering into the new season, this will also turn around.

Going ahead, with clear emphasis on capital spending to generate growth and a strong focus on employment along with some of the proposed tax amendments in the Budget 2024, we expect stronger growth in tenant sales in the second half of FY25 with the onset of the festive season. So clearly, I think our take is that the second half of the year will be far stronger than the first half of the year.

Talking more on the Budget, we would also like to thank the Government of India for aligning the holding period of REITs to 12 months like other listed equity shares to qualify as long-term capital assets. This strong stance by the Government echoes their commitment in REITs as an asset class and will definitely pave the way for long-term growth of this instrument.

Now, let me share some category trends with you that I spoke about earlier:

- Categories like electronics, jewellery, and family entertainment centres 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 as we go ahead.

- Most fashion retailers have seen the arrival of new inventory and with increased number of auspicious days in the second half of the year, we expect tenant sales to improve going ahead in fashion as well.

Let me walk you through our Leasing and Marketing performance:

Leasing Performance: With strong demand from tenants, both domestic and international, our leasing occupancy now stands at 97.4%, which is 70 basis points higher than last year. As we speak today, most of our malls are almost 100% occupied.

In Quarter 1, we have leased 0.23 million square feet out of which we released 0.18 million square feet at an average of 18% re-leasing spread. In last twelve months, we have leased almost 0.94 million square feet, including 0.74 million square feet re-leased at 20% spread. So, this is exactly what we had mentioned in our offer document as well.

Our malls continue to be the first port of call for domestic as well as international brands. We have signed marquee brands like “Foot Locker, YSL Beauty and Gucci Beauty”, who will be opening their first stores in India in Nexus Select Citywalk in Saket, Delhi. We have a stable leasing expiry profile with average annual expiry of about 0.8 million square feet or about 10% of our rentals annually over the next three years, with average mark-to-market potential of about 20 percent. We will continue to proactively churn and resize underperforming brands ahead of their expiry.

Coming now to the **Marketing Performance**: Our size and scale allows us to plan for pan-India promotions. During the quarter, we kept our focus on summer activations, which attracted a lot of young kids who spent time at the malls with their families. We have onboarded Ayushmann Khurrana as our new “Happyness Ambassador,” and his exceptional entertaining skills will make him the perfect fit for Nexus pursuit of happyness.

Our marketing spends have been up by 20% in Q1. We continue to invest in the growth strategy as we feel that the mid-to-longer-term consumption story is not just intact but will get more robust from the second half of the year.

We continue to invest in technology as well to drive tenant sales growth, which will be important in the coming years. We spoke about the Nexus One app last time. We have now extended it to 9 malls. During the quarter, we added around 52,000 new users, with 45,000 signing up for the loyalty program. This brings our total app downloads to 285,000, and our loyalty program sign-ups to 210,000, translating to an impressive conversion rate of around 74%.This will not only give us very rich consumer data but will also help consumers in terms of both figuring out where they are, store locations, etc., which is way finding and we will also have a very strong loyalty program on this. So, technology, as we go forward, will indeed be the backbone of our growth.

Now let me take a couple of minutes to talk about our growth strategy for the next five years:

Our vision is to double our retail portfolio NOI through a combination of organic and inorganic growth over the next five years, which would translate to roughly a CAGR of about 16%.

Our first eight years of business is what we call Nexus 1.0, where we created a unified structure as we kept acquiring assets, built a platform with best-in-class team, improved overall asset quality by incurring strategic capex, attracted shopper traffic by focusing on marketing, created and leveraged strong tenant relationships, which helped introduce newer brands and lease up the portfolio. This focus created a better playbook overall by integrating processes, which resulted in better rentals and yields.

We will now be embarking on the next phase of growth, which is what we term as Nexus 2.0, where we are creating a five-year roadmap by building relevant differentiated positionings for each of our assets to accelerate growth by:

1. Adding relevant premium and power brands to each of our assets and working with retailers to bring the latest store designs and merchandise into our malls.
2. Introduction of technology with Nexus One app to get better insights into consumer habits.
3. Improved focus on marketing with better engagement, big-ticketed events, focused on digital and anamorphic displays across the malls.
4. Capex thrust to increase “wow” elements across our malls.
5. Further improving our ESG roadmap
6. Creating a future ready organization structure to support all of the above.

Basis the above, we expect that our retail NOI, which is currently around INR 14.4 billion today, will grow at a CAGR of 8.5% to 9.0% over the next 5 years. This will mean, we organically will add approximately INR 7.5 billion to this retail NOI over the next 5 years. So organically, we expect the current retail NOI of INR 14.4 billion would grow to about INR 22 billion by the end of 5 years.

Coming to the inorganic part:

Keeping up with our past track record on acquisitions, we intend to acquire about 1.5 million square feet, which is roughly 2 to 3 malls every year. Through these acquisitions, we will be able to generate an additional NOI of approximately INR 1,500 million every year, which we expect to also grow at 8.5%-9.0% CAGR. This will also add incrementally about INR 9 billion to the organic retail NOI over the next 5 years taking retail NOI to about INR 31 billion by the end of 5 years.

Considering our low LTV of 14%, majority of these new acquisitions as we have said will be funded by debt.

Now coming on to ESG, which continues to be an area of focus for us. During this quarter, we have successfully commissioned the 3.3Megawatt captive windmill in Tuticorin, Tamil Nadu which will meet approximately 50% of our energy requirements of our mall in Chennai, Nexus Vijaya at a 20%+ YoC.

Finally, let me just summarize our performance during the quarter:

1. Our retail NOI growth was 8% in Q1 FY25 and we expect to achieve our projections for FY25 that we had disclosed last quarter.
2. Leasing demand for our assets continues to remain robust with favorable demand-supply dynamics with new brands asking for space, both domestic as well as international.
3. While consumption growth was soft in the first couple of months of the quarter, we are witnessing recovery in June and expect this recovery to continue.

4. We announced our fourth distribution of INR 3,253 million today, which is in-line with our FY25 guidance. Also, there are no changes in our full year projections. We continue to remain on track to achieve our FY25 projections.
5. Lastly, we look forward to closing the acquisitions of five assets, already announced. Our strategy for inorganic growth in the portfolio remains robust with ongoing discussions for another five assets.

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 Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Couple of questions from my side. Firstly, I just wanted to understand what would have been the variable component of rentals this time around, and I am just trying to get a quick sense as to how that stood at 3% consumption growth versus last year, when the consumption growth was about 16%-18% YoY. and then the associated question here is, despite sort of 3% in tenant sales growth, and you stated that the NOI growth was sort of in line with your expectations, why would that be? Is it because the softer consumption patterns were in segments where you don't have variable exposure or was there a different element at play?

Dalip Sehgal: Kunal, thank you for your question. The first question you asked was about the revenue share, the variable component salience, typically in our business, is between 12% and 13%. In Q1, it has been around 10% - 11% because of the lower tenant sales growth of 3% versus last year.

Number two, how has the retail NOI growth been 8% YoY despite tenant sales growth of 3% YoY?

Let me answer these:

1. We did take a bit of a hit on revenue share, but we made it up by a very strong performance on leasing, like I earlier said that during the quarter we have re-leased about 0.18 million square feet at an impressive 18% spread.
2. Number two, apart from rental from tenants, we also had a very strong performance from space on hire, where revenues grew at almost 50%.
3. And three, our cost controls have been extremely good adding a substantial amount to our contribution as well. So, just to give you some sense, while about 90% of our revenues come from rentals from tenants, 10% also come from the rest of the revenue streams, including car parking, space on hire. etc. and that 10% has done extremely well in the quarter.

So, out of all above components, the minimum guaranteed rentals were in-line with our estimates. Non-rental incomes were ahead of estimates and only revenue share was about 2%-3% lower, primarily on account of the lower tenant sales growth and like I said, it was about 10%-11% of the total rentals in Q1.

Kunal Tayal: If I could sort of ask a couple of questions around the five-year outlook that you have provided. The first one around that is, as you look at this 8.5% to 9.0% organic growth, it seems like it should be assuming an uptrend in the occupancy cost ratio, because typically, I think the math here is that you might get 5% average growth from rental escalations, about 1% to 2% growth from MTM catch-up, and then I am assuming therefore the rest of it comes from consumption growth. So, firstly, would that be right?

And the sort of second question on the inorganic side is, again, I think the presentation shows 8.5% to 9.0% growth, could be theoretical, obviously, because I understand you are just providing the broad contours, but should we not think of the growth in acquired assets to be higher? Because I think in the past, your communication has been that when you acquire the assets that it will be underperforming, and therefore, as you turn them around, they tend to sort of yield better than the organic assets.

Dalip Sehgal: I think both the questions are good questions. I think on the first one, which is really about 8.5% organic growth, I think you have said it yourself. There is a 5% contractual increase on rentals that happens every year. There is a 20% mark-to-market on leases that expires which is about 10% of our retail rentals every year, that gives you another 2%. So, that's about 7%, 1% incremental depending on tenant sales growth. and the final 0.5% to 1% is on account of cost savings, improvement in office and hotels segment performance, etc,. So, you are absolutely right. I think 8.5% to, 9.0% organic growth is absolutely correct.

As far as the second part, which you picked up, I think that's a fair question, which is to say, will the acquisitions bring in only 8.5%? I think this is a stabilized 8.5% that we are quoting. Let me ask Pratik to elaborate a bit more on this.

Pratik Dantara: Hi, Kunal, this is more linear over the next five years. A lot of the assets that we acquire will be under-managed, under-leased, and therefore as we ramp-up the occupancy, the NOI CAGR in the initial first two years will be on the higher side. I think from a conservative standpoint, we have taken 8.5% to 9.0%, but yes, we agree with you that it should be higher. But again, this is a vision. So, we kind of keep it at that. So, I think, broadly, it will take care from an absolute number perspective.

Dalip Sehgal: On a stabilized basis, the new assets, as we have seen even in the current portfolio, will give up between 8.5% and 9.0%. That's a stabilized rate. But you are absolutely right to say that post acquisition, the first two years, the growth rates will be significantly higher.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: I have a couple of questions. First, could you break the consumption growth in the quarter down into footfall growth and the realization growth to help us better understand what is the sort of impact, as you said, on the various factors on the people visiting the malls? That is the first question.

Dalip Sehgal: Can I answer that? So, last year, if you remember, we had a 7% increase in footfalls. This quarter, we have seen a drop of 2% in the footfalls. So, the 3% increase in consumption that you see is despite a 2% drop in footfalls. The drop in footfalls, like I said, happened on account of three reasons. One, the fact that there were general elections, and I think a lot of the polling happened over weekends. Malls were opened only late in the day on the day of polling. There were dry days, which has impacted F&B.

Secondly, the heat wave in the first two months, the weather was extremely hot and people perhaps did not come out as they would and then there was, of course, cricket world cup and IPL happening on weekends. So, footfalls were lower by about 2% and there is a 3% growth in tenant sales . So, the underlying growth on the same footfall basis may have been around 5% or 6%.

Pratik Dantara: And Adhidev, just to add to what Dalip has said, April and May was where we had maximum impact. We have actually bounced back in June on the consumption and footfalls.

Dalip Sehgal: Yes, we grew at around 6% and footfalls also came back. But I think the first two months were not great and these were the reasons. I think the trend seems to be positive starting last month and we hope that this will continue as we go forward because inherently at a macroeconomic level, the assumptions that we have made a year ago at the time of the IPO, those hold very strongly even now.

So, both in terms of the growth in GDP is still holding, inflation is by and large under control. Three, the fact that there is still more demand than supply in our markets. I think these are all factors that we had spoken about and those still hold valid and that gives us the confidence to put in 20% more marketing investment in this quarter, despite seeing softness in the first two months.

Adhidev Chattopadhyay: Thanks. So, second question, I think, this is on the NDCF distribution. So, there is again a working capital release of INR 53 crores. Could you just please elaborate on the nature of this? Is it one-time or could we see a similar trajectory for the rest of the year?

Rajesh Deo: We are required to distribute at least 90% of the NDCF on a six-monthly basis. Our endeavor is to distribute 100% on a quarterly basis. We have had some opening cash that we are carrying, and we have distributed them to the extent of INR 38 crores this quarter and this is as was planned during the IPO.

Adhidev Chattopadhyay: Sir, my question was on the working capital gain of INR 53 crores, this quarter.

Rajesh Deo: Out of that INR 53 crores, INR 38 crores is what we have distributed through opening cash surplus, and the balance is the movement in working capital.

Adhidev Chattopadhyay: And for the rest of the year how would this trend? I mean, the number would be lower going forward, this working capital gain or there are some other levers, which would help us have a negative working capital for the rest of the year? Just wanted to understand the trajectory for the rest of the year on that line again.

Pratik Dantara: It will be broadly similar in the sense that there will be some working capital squeeze. But at the same time, the distribution will be around INR 8.7 to 8.8 per unit on a full-year basis like we have guided earlier and we are on track to achieve that.

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

Mohit Agrawal: So, a few questions. Firstly, on consumption, you mentioned that June was better. So, is the trend continuing in July as well? And do you see that number improving further? And the second part is, if you could also elaborate in the 1st Quarter if you have done 3%, have you still outperformed the industry? Like would the industry be flattish. If you could give some color on that?

Dalip Sehgal: So, see, as far as the second part of the question is concerned, which is industry, we can only talk about some of the results that have come out, which is basically from our tenants. I think the fashion companies have actually reported by and large negative same-store sales growth even in QSR think most players has declared a negative growth on the same store.

So, if you look at the overall numbers that have come out so far and we are still waiting for some of the other guys to report, by and large, it seems to be a flattish kind of a quarter and in some cases, in fact, negative.

So, have we outperformed? We would be able to give you a firmer answer maybe in a couple of weeks down the road when we have a little more data. But overall, our sense on the ground is that in most of our key markets, we have probably done better than the competition, but that's in a sense, like I said, a qualitative comment. We will wait for all the numbers to come in.

As far as your first question was concerned, which is that will we continue at 3% growth and how do we see that happening and say June was better, is that a trend that will continue, our sense is that the trend has continued into July and the quarter itself was in-line with what we have projected. So, I think, the worst perhaps is behind us is the sense that we get, but the real uptick and let's say the graph moving up a few steps will probably happen around September or October this year.

Mohit Agrawal: On your acquisition strategy, it's a pretty aggressive target that you have given. Just trying to understand what do you see as the key risk to achieving these numbers in terms of acquisitions? Is it the availability of assets? Is it the valuation expectation of the seller? Or do you think it could be regulatory issues also? And in that context, if you could update on the timelines on the Hyderabad acquisition also, it's been a couple of quarters. So, what do you see as the key risk to achieving this number?

Dalip Sehgal: So, I think in any acquisition strategy, some of the things that you have mentioned are there. But remember, we have in the last six-seven years acquired 17 malls and turned them around. So, the fact is that all these risk factors were already there. It's not they weren't. As of today, as we speak on the table, we have 1.0 million square feet in Hyderabad, another 0.8 million square feet in the North and in the South. So, we have about 1.8 million square feet on the table. Most of it will fructify.

There will always be issues. In any country, there will always be regulatory issues, and the whole idea is to overcome them and we are pretty confident that it is a timing issue, and we will be able to overcome them.

So, two or three things that I want to bring up front. One is that, I think, given our past track record, and the fact that there were still 50 to 60 Grade A assets, which are owned by people who have one or two malls and these may not be core assets to their overall business. We have another five assets in the pipeline. So, I think we will be able to achieve the numbers we have guided for, is my sense.

We are also looking at Greenfield development in certain markets where we may not have, like you said, no asset may be available. It's possible and there are some good metro cities where it may not be possible to acquire an asset because there are no Grade-A assets, or if there are one or two then these are with the people who don't want to sell these assets.

We are also looking at Greenfield development for the first time. While that's not core to our strategy, but wherever we feel that there is a positive upside that may happen, we would look at doing a couple of greenfield developments as well.

So, in short to answer your question, does it look daunting? I think it does, but when you break it down by the assets that are there on the table and the ones that we are talking to, I think it is achievable.

Pratik Dantara: Just to add, while it looks daunting because unlike other REITs, there isn't a sponsor pipeline that actually comes in for us. We are actually cultivating transactions as the management team at Nexus, and that's the task at hand to try and cultivate it consistently over the next few years so that the pipeline remains healthy and strong.

Dalip Sehgal: Yes, and we have spoken about this in the past as well as to why REIT is a great instrument for people who want to sell their assets given the fact that they don't have to pay capital gains, the fact that about 65% of the distribution is tax free and the fact that there are various options that they can opt for, which is exchange of units, debt, etc.

I think all those benefits of having a REIT are still equally valid, but like everything else, I think acquisitions happen when they close, and we are hopeful that some of these will close pretty quickly.

Mohit Agrawal: You made an interesting comment on Greenfield development. So, I am just trying to understand your thoughts here. You can do about the Greenfield or Brownfield up to 20% of your GAV, right? So, is it like what kind of stops and what are the expectations on return? So, just my question is what kind of IRRs do you expect from Greenfield developments or Brownfield developments versus the acquisition model? So, is it the return expectations which is different or is it the limitation of 20% which has kind of held back so far?

Dalip Sehgal: Our strategy has been, what are we good at? We are good at acquiring and fixing the assets and getting incremental value out of fixing those assets. That's been our core strategy. So, that's part one.

Part two, from what you are saying, is the IRR better? The IRRs by and large between build and buy seem to be more or less similar and you can probably ask Pratik to take you through the working and that's probably one reason why we have stayed with acquisition. They are very similar.

The third thing is that why would we do Greenfield development when at the core we still are talking about acquisition. I think there are markets, without naming any cities particularly, there are markets where there may be just one asset or two assets and there may be plethora of people who own those assets, don't want to sell. In those kinds of markets if you believe that, this is a very strong future potential market, we will certainly look to do a Greenfield development with a strong partner. We obviously would not do it on our own and we would do it with a strong partner.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Just elaborating on the acquisition strategy, what would that entail? INR 1.5 billion would be what about an INR 18-20 billion of acquisition every year and in terms of funding what you talked about

100% debt funding, could there be a combination of debt plus some unit exchange or even, you know, is there a consideration that maybe the distributions could be utilized towards acquisition? How does that stack up? That's my first question.

The second one and with due respect to the film personalities, but generally we have not seen other sort of mall owners use such brand ambassadors. What is the cost-benefit analysis of having someone like that? I mean, we have seen specific retailers use it and we understand that part, but as a mall owner, how is the cost-benefit of getting? We have previously had Mr. Bachchan as well. So, if you could address these two.

Dalip Sehgal: As far as use of either film personalities or any endorsement by and large is used for building the brand. Nexus now is a brand. In fact, let me give you one example, when we acquire Forum (Prestige) portfolio of 8 malls, the key question at that point of time was that we had to rebrand the entire thing as Nexus. How do we get awareness? Meaning there are malls like Koramangala which were 20 years old and had been called Forum from that period, from 20 years.

So, we took a call to get Mr. Bachchan on board to say, can he bring in the trust, the robustness and the saliency for the new brand. Happy to report, you said, how do you measure it? See, marketing, we can't measure everything 100%, but what we did measure was that within 3 to 4 months of the re-branding exercise with Mr. Bachchan as the brand ambassador in Bangalore, which was one of our key markets, 73% to 74% of the consumers unaided called Nexus Koramangala and not Forum.

Now that's a big, big change because over the years understanding brands, you can't do that very quickly. So, clearly Mr. Bachchan helped us to get the consumers to understand that there was a change and that the new brand is Nexus, and they were calling it Nexus. And I have seen that happen with a lot of friends as well in Bangalore who now actually refer to it as Nexus and there will still be some people who will refer to it as Forum.

So, to answer your question, there is no reason why malls cannot use brand ambassador like retail brands. We are a house of brands. We have got almost a thousand brands across 3,000 stores in on our malls.

We do believe that we must invest in it, just as we would in other brands and our experience with so far has been extremely, extremely good with both Mr. Bachchan and earlier with Mr. Khurrana and that's the reason why we got him back because he has that kind of an image. He is a singer. Pre-COVID we did a concert with him at Elante. It was amazing to see the kind of response we got and the upside that we saw in tenant sales subsequently. So, we do believe that these investments are certainly worth it.

Pratik Dantara: As a part of our strategy, we are looking to add about 7-8 million square feet over the next five years. Assuming we acquire these at a spread of 150-200 bps to where we are trading, we probably will need about INR 8,500 crores over the next five years. We would like to have our LTV around 28%-30% post these acquisitions and therefore we anticipate 70% of these acquisitions to be funded through debt and the balance is open. We probably will look at either a swap or a QIP as the case may be. But that's how we were planning about funding the acquisitions.

As a philosophy, we were looking at acquisitions which do not impact distribution. So, we are looking at acquisitions which will be accretive to the NAV and DPU. Obviously, some of these are under-managed assets. So, by the time we integrate them, it may take 6 to 12 months. But I think these will be accretive on a stabilized basis.

Murtuza Arsiwalla: So, you would generally not want to use internal accruals or cash generation for equity funding of acquisitions. Is that fair?

Pratik Dantara: Yes.

Murtuza Arsiwalla: And the regulations that allow you to do that, right? You could use, the definition of NDCF does allow you to make investments from it, right? NDCF is post just as a clarification.

Pratik Dantara: It does.

Murtuza Arsiwalla: It does allow you, right? But you don't want it to go down that path. You try to do it…

Rajesh Deo: Just to add, we are required to distribute 90% of the NDCF on a 6-monthly basis. So, for the whole year, you accrue only 10% of NDCF for acquisition. That's not quite a bit to kind of keep using for acquisition. In turn, what's on the table is 1.8 million square feet that we are talking about, we have a LTV of around 14% now at gross debt of INR 4,300 crores and as this all can be funded through debt, which will increase our LTV to 18%.

Moderator: Thank you. The next question is from the line of Praveen Choudhary from Morgan Stanley. Please go ahead.

Praveen Choudhary: Quick couple of questions. The first one is on DPU growth. You mentioned over the next five years, both organic and inorganic, you could get a 14% CAGR. But as you rightly pointed out, you would use some debt that will reduce the DPU growth, right? Or NDCF growth, we should say. What would that CAGR be? Is it 9% or 8%?

The second question I had was you mentioned the GDP in India is very good. Inflation is very good. And yet, all the brands are suggesting or showing negative SSG growth. So, it's a question on consumption, to be honest. What's plaguing them and why can't it be a concern for the overall India consumption? Because everybody's so bullish on that point.

I have one last question, Hospitality, I saw that it declined year over year. Just wanted to understand it's, again one-off or there is some concern on the very small part of your business, but just any trend that we should be watching.

Dalip Sehgal: I think what we have said is over the next five years, an NOI CAGR of 16%, not 14%, just to put the number right.

Secondly, I think the question that you asked that, look, if macros are good, why is consumption down? Please understand there is also a base effect. If you go back into past and look at the same quarter last year, that quarter the growth was around 18%.

Traditionally, if you average out pre-COVID, the growth in consumption was about 8.5% and the fact is that even today, if I now look at a CAGR, including the two bad years, the CAGR of tenant sales growth comes back to 8% to 8.5%.

So, the fact is that there was clearly a spike that happened because there is a base effect as well. I think not many people understand that or recognize it. The fact that if there is 3% to 5% growth, the same store growth is negative and there are reasons for it. Some of them are short-term, one-off. For example, whatever happened in this quarter in the first two months, I think was a one-off. But the fact is movies were bad in the quarter. So, footfalls were low, etc.

So, without getting into too many details, I think the fact is that as long as your macros are good and inflation is still under control, the pressure on the household budget to that extent is a little limiting. There may be periods where, for example, food inflation may be a little higher, vegetable prices went up and so on and so forth. That can happen, but is that a longer-term trend? The answer is no.

Equally, was the 18%-20% growth that we saw same quarter last year and that would continue? The answer is no. The average out is around 8.0% to 8.5% and I think that is what we should be looking at as a reasonable CAGR for consumption growth.

Praveen Choudhary: I did have two other questions. First of all, thank you for correcting me, 16% NOI growth. I was asking if you debt fund it, the NDCF will grow slower, right? Is there a number that you want to highlight for the next five years?

Pratik Dantara: We aren't specifically giving any guidance on the NDCF for the next five years. At least for the next couple of years, organically, we will follow the numbers that we had disclosed in the prospectus. I think just on the acquisition bit, there will be a spread on the cap rate to where we trade. So, that would result in an accretive transaction.

At the same time, the acquisitions that we do will be at a cap rate which will be higher than the interest cost that we have to pay which will result in accretive transaction. and the third thing that probably isn't factored in is the benefit that one gets because of the structuring of transactions. So, we structure transactions into entities such that we get tax benefits in that entity. So, that results in lower tax outflow as we acquire assets. These three pieces make the transaction accretive for us and therefore DPU accretive as well.

Rajesh Deo: On the hospitality part, like we said, we have two hotels, one in Chandigarh and one in Bangalore, 354 keys, doing pretty well, coming off a very high base in FY24 and what we saw is a gap of only INR 1.5 crores at the NOI level and the contribution of hospitality is only about 3%. So, that was because of the occupancy issues in Oakwood, which we see gearing up in the coming quarter.

Dalip Sehgal: Oakwood, as you perhaps know, is a long-stay hotel. It's not like the normal one day, two-day hotel. It's a long stay. So, people, when they come on a transfer, especially expats, instead of having or staying in a hotel, they would stay in a suite which has cooking arrangements. So, that's the kind of hotel it is. I think we did see a bit of a slowdown happening in terms of expat arrivals for the IT business that we did see and hopefully, that will correct itself. But like you yourself said, I think it's too small a part of our business really, but we do manage it as well as we can.

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

Parvez Qazi: So, the first question is regarding the NOI growth for this quarter. Possible to kind of break it up into rental increase, CAM margin, etc.

Dalip Sehgal: Yes, basically 90% of our NOI comes from rental and the balance 10% comes from all the other revenue streams. So, if you look at the retail NOI growth that has been around 8% and overall growth is 7%, which means that the balance 10% has grown faster. Yes, so that's roughly what it is.

So, the fact is that what we took a hit on the revenue share. Otherwise, it would have been around 8.5% to 9% because the growth was lower. So, that's why we ended at around 8% growth for retail.

Parvez Qazi: And you mentioned that apart from the assets which are at the due diligence stage, we also have five other assets which are in the pipeline. Possible to get some color on the total cumulative area of the five pipeline assets.

Dalip Sehgal: Wouldn't want to do that just now, Parvez, primarily because it is still at a stage where we don't want to get it to specifics. Unlike the first five assets that we have spoken about where we are particularly happy to share that data to some extent, here I think it is still at a preliminary stage, but these are assets that we are seriously looking at.

Parvez Qazi: So, for the five assets which are in the due diligence stage, cumulative area is about 1.8 million square feet, which suggests average size of about 0.3-0.4 million square feet. Is that our sweet spot or are we okay at looking at larger malls also?

Dalip Sehgal: We are looking at larger malls as well, depending on market, etc. as to how big it is. So, if you look at Nexus Select Citywalk, which is our best performing mall, it is only half a million square feet. Bhubaneswar, which is again one of our best performing malls, is only 0.4 million square feet.

You have to see what works, what doesn't work and at times what also happens is that you may get, let's say, a basket of assets, some of them will be brilliant and some of them will be mediocre and there will be a couple of laggards as well and because you are buying it as a basket, that's the way it could happen.

But by and large, our philosophy has been to look at assets which are Grade A, reasonable size, have been under-managed, under-leveraged both in terms of investment on the physical asset as well as marketing and last but not the least is to improve the brand composition of that mall.

So, how do we get in better brands? A classic example is Fiza by Nexus, which we acquired in the South in Mangalore. When we acquired, the occupancy was around 72%. Today, it is around 92%, and we have got some of the best brands to open there. H&M opened Starbucks opened and a lot of new brands, first time in the city brands have opened there and the mall is doing extremely well. I think the size of mall really depends on what is our ability to turn around.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, firstly, on this NOI pipeline of 5 years where you are budgeting a 16% CAGR, it should, given the spreads that you will be getting and these are probably not so well-run malls, my guess is that the DPU or the NDCF should also increase at least in double digits. Is that a right sort of assumption?

Pratik Dantara: Sarvesh, we probably won't at this point of time want to get into specific DPU guidance. We will take it on a case-by-case basis as we keep announcing transactions and therefore for now if we can leave it at the broader strategy that we are aiming for.

Sarvesh Gupta: Sir, in general, where I was coming from was, if I look at last decade, I think in general, I think real estate was down in the dumps and there were a lot of problems at the promoter levels and that would have helped you sort of acquire some of these assets at reasonably better prices. And even in the pipeline, I see at least 7 malls were acquired during the COVID year where, of course, players like you who had the liquidity had a big advantage over other offline mall owners, etc.

Now, apart from that, we have done may be one asset per year. Now going forward, you know, this cycle has now changed, number one. And secondly, the liquidity situation has also considerably improved for many of these players in other sectors who might be promoters of such malls, including mostly real estate players. So, in that sort of a situation, how do we see this sort of an acquisition pipeline working out at attractive sort of a yield for us?

Pratik Dantara: I think what we continue to see in the market is that a lot of these assets and the owners that come to us are coming in because these assets are non-core to them. They probably kind of, fourth or the fifth class of asset that they own, and they would probably want to get rid of that so that they can focus on the core business.

Second kind of sellers that we are getting is a large kind of families with multiple owners of the asset with multiple generations actually owning the asset and therefore, as they look at future ownership and lineage within their families, they think about divestments and therefore looking at selling some of these assets.

The third kind of people that we are getting are the guys who actually want to swap for the tax benefits. They own standalone malls. They aren't able to attract the best tenants. They aren't able to kind of get the best advertising, leasing and even some of the capex that they spend isn't as prudent. So, we believe that instead of owning one or two assets, it's best to own it as part of a larger professionally managed portfolio.

That's what Select did and we think we are getting a lot of queries wherein people really want to swap in, may not need cash today, but it creates a lot of liquidity, especially when there are multiple owners to the asset, and each owner has a separate exit in mind.

Sarvesh Gupta: And you know, since there will be a sort of a cap on the number of acceptable properties like such, which maybe we will be able to run through them over the next five years, but beyond that, I think Greenfield would be the way to go, but land prices in cities are also like at crazy prices in general. So, if you were to go for Greenfield, then at least the yields in the first several years would be considerably depressed. So, how does one solve that? And are you guys also working on that front? Are you getting some sort of an asset light sort of a model in place which will probably help at the overall trust level? So, how should we think about that?

Pratik Dantara: Like Dalip indicated earlier, when we do Greenfield development, first of all, it will be very selective in select markets where we feel that there isn't any supply of good malls available or there is some where demand is great, but someone is not willing to sell. These are the markets that we target, again on a very selective basis.

Now, as we look at Greenfield development, we probably with the regulations around REIT, we may not be able to do all of it at a REIT level from day one. So, we will have to structure it appropriately wherein things are built to our specs, and we get ownership of the asset in the future. So, we look at forward purchases so that the outflow initially is minimal, and we are able to still participate in designing the mall, getting it up as per our specs, and then leasing it out from day one, which has been historically our strength.

Sarvesh Gupta: And you expect that even in those forward purchases**,** in the initial years, they would not be lesser than, let's say, the DPU yield or something like that.

Pratik Dantara: That's for Greenfield development. So, like I said, as it's structured appropriately, it shouldn't be diluted.

Sarvesh Gupta: And finally, one question on your debt strategy. A large part of it is floating. So, what is the thought process behind it and how do we sort of look into it? Because that also possesses a risk for us and why are we not going for more longer tenure fixed or are we taking an interested call here?

Rajesh Deo: What we are witnessing is interest rate sticky throughout FY24 and there was some guidance that last quarter it might soften but hasn't happened. So, these are good times to have a floating rate and we are waiting for the right time to take this opportunity, and because doing a fix now is locking yourself for 3 or 4 years NCD or a debt. So, we will see as we go ahead, as and when the right opportunity comes, we will take that benefit.

Sarvesh Gupta: So, 1.8 million square feet which is under due diligence, which is around 18% odd growth to our existing square foot of retail space, that should at least add a double-digit space, a double-digit growth to our NOI. That itself should add a double-digit growth to our NOI next year.

Pratik Dantara: It depends on where it is consummated and how fast we integrate it, because like I said, especially the Hyderabad one is an under-leased asset. So, integration is important there. But yes, on a stabilized basis, we should add the kind of growth that you indicate.

Moderator: Thank you, ladies and gentlemen. As there are no further questions, 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