CRISIL Ratings

Rating Rationale

October 09, 2024 | Mumbai

Nexus Select Trust

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.1000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Assigned)**
Rs.1000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Corporate Credit Rating	**CRISIL AAA/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AAA/Stable'** rating to the Rs.1,000 crore proposed non-convertible debentures (NCDs) of Nexus Select Trust (NxST; sponsored by Wynford Investments Ltd [a Blackstone Inc. affiliate]) and has reaffirmed its 'CRISIL AAA/Stable' rating on the existing NCDs. Also, CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' corporate credit rating on the trust.

Business risk profile is driven by strong operating performance and healthy occupancy levels. The REIT reported a net operating income (NOI) of Rs 1,435 crore with NOI margin of 74.8% for the fiscal 2024 (from May 13, 2023). Consumption (consolidated sales done by retailers within the malls) grew 13% during fiscal 2024. Operating performance continues to remain healthy with NOI of Rs. 413 crore and NOI margin of 74.5% during first quarter of the current fiscal as well while consumption grew by 3% during this period. Further, the consolidated committed occupancy for all 17 retail malls in the portfolio remained strong at 97.4% as of June 2024 (97.6% as March 2024).

Financial risk profile also remained comfortable with low consolidated gross debt of ~Rs 4,285 crore (at an average cost of debt of around 8.1% per annum [p.a.]) as on March 31, 2024 leading to comfortable loan-to-value (LTV) ratio of ~17% (on gross debt basis as per external valuation dated March 31, 2024). Unencumbered cash and cash equivalents (including mutual fund investments and distribution announced for fourth quarter of fiscal 2024) were Rs 1,062 crore as on March 31, 2024, resulting in 14% LTV on net debt basis. The REIT is planning to acquire a retail asset over the near term and has planned to raise debt, allocating it partially towards funding an acquisition of an asset and partially towards refinancing existing obligations. Despite this planned acquisition, the LTV should remain at a comfortable level.

The ratings continue to reflect comfortable LTV ratio of NxST characterised by low debt levels, strong debt protection metrics, and stable revenue profile of the assets given healthy occupancy level and benefits from tenant and geographical diversification. The strengths are partially offset by competition in the retail real estate market and exposure to volatility in the real estate sector resulting in fluctuations in rental rates and occupancy.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of NxST with those of its special purpose vehicles (SPVs), in-line with its criteria for rating entities in homogeneous groups. This is because NxST has direct control over its SPVs and will support them in the event of any exigency. Additionally, as per Securities and Exchange Board of India's (SEBI's), Real Estate Investment Trust (REIT) Regulations, 2014, NxST and its SPVs are mandated to distribute at least 90% of their net distributable cash flow. Also, the cap on borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the aggregate value of NxST's assets).

Please refer annexure – list of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Comfortable LTV ratio of NxST:** The consolidated gross debt of NxST was low at Rs 4,285 crore as on March 31, 2024 and the total cash and cash equivalents (including mutual fund investments) stood at Rs 1,102 crore as on March 31, 2024 (out of which unencumbered was Rs. 1,062 crore (including mutual fund investments and distribution announced for fourth quarter of fiscal 2024)). Consequently, NxST has comfortable gross and net LTV ratio of 17% and 14% respectively (as per external valuation dated March 31, 2024). The low LTV ratio shields investors from the risk of any decline in property prices and its consequent impact on refinancing.

  The REIT is planning to make a completely debt funded acquisition of a retail asset. However, LTV on net basis is expected to remain comfortable going forward as well. However, significant increase in debt from current levels, in the absence of commensurate cash inflows, will remain a monitorable.

- **Strong debt protection metrics:** Steady cash flow from rentals should lead to comfortable consolidated average debt service coverage ratio (DSCR) for the REIT. Further, the trust had incremental liquidity of Rs 1,102 crore (including debt service reserve equivalent to 1-3 months of debt servicing obligations and distribution announced for fourth quarter of fiscal 2024) in the form of cash, other bank balances and mutual funds as on March 31, 2024.

  Debt of Rs 1,150 crore and Rs 2,014 crore at the REIT and SPV levels, respectively, as on March 31, 2024, is amortising in nature with a long tenure of 12-15 years.

  NCDs – Series I (tranche A) of Rs 700 crore raised in June 2023 have been primarily utilised for refinancing of external debt at underlying SPVs. These are non-amortising with bullet repayment at the end of 3 years, while coupon of 7.86% p.a. is payable quarterly.

  NCDs – Series I (tranche B) of Rs 300 crore raised in June 2023 have been primarily utilised for refinancing of external debt at underlying SPVs. These are non-amortising with bullet repayment at the end of 5 years, while coupon of 8.00% p.a. is payable quarterly.

  CP's – Series I of Rs 100 crores raised in March 2024 have been primarily utilized for capital expenditure at various SPV's at 8.03% for 334 days.

  These NCDs and CP's expose the trust to refinancing risk. Nevertheless, the risk is mitigated by low LTV, ability and track record in refinancing and healthy revenue potential of the underlying assets.

- **Stable revenue profile of REIT SPVs:** Around 89% of the total revenue is from 17 retail assets having stable operations with a track record of at least 5 years of rental collection – the consolidated revenue from these retail assets was ~Rs 1,700 crore during fiscal 2024. Majority of these assets have maintained robust occupancy of over 90% over the past 5 fiscals; average occupancy was strong at 97.4% as of June 2024. Occupancy is expected to remain strong given good asset quality, and favorable location in prime areas within the cities they are situated in.

  NxST currently owns and operates total retail area of around 9.9 lakh square feet (sq. ft) with a healthy mix of anchors, vanilla, and food and beverage tenants. Top 10 tenants contribute around ~21% of gross rentals (during fiscal 2024). The assets are spread across 14 cities in the country, with the largest asset contributing to ~18% of retail gross rentals for fiscal 2024. The ratings also factor in a well-secured lease structure, with lock-in and lease period of over three years and five years respectively and an in-built revenue escalation clause for most tenants. Also, 10-12% of the rental is generated through revenue share income.

Weaknesses:

- **Competition in the retail real estate market:** Although the portfolio of NxST generates steady cash flow from lease rentals supported by healthy occupancy, the assets may continue to face competition from other retail assets and established high streets. Some malls in the portfolio have been impacted due to competing malls opening within their micro markets. Though this impact on consumption and footfalls is expected to stabilise in the medium term, the REIT's ability to continue to reinvent and remain relevant tackling existing and new competition will remain essential. Any substantial impact on footfalls and consumption and, therefore, rental cash flow at the assets due to competition will remain a key rating sensitivity factor.

- **Exposure to volatility in real estate sector:** Rental collection, the main source of revenue, is exposed to volatility because of economic downturns, thereby impacting the tenant's business risk profile and, hence, occupancy and rental rates. Further, around 22 lakh sq. ft of area will be due for renewal in nine months of current fiscal and next two fiscals through fiscal 2027. Ability of the company to renew/enter into agreements at existing or better terms will be a key monitorable. While majority of the tenants are established companies and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time. This could adversely impact cash flow, and hence, will be a key rating sensitivity factor.

Liquidity: Superior

Liquidity remains strong, supported by healthy debt protection metrics, including for permitted additional financing. NCDs are non-amortising, exposing the debenture-holders to refinancing risk. Nevertheless, a low LTV ratio enhances the REIT's financial flexibility. Low consolidated debt of the REIT is unlikely to cause the LTV ratio to increase materially, thus protecting investors from any decline in property prices and the consequent impact on refinancing. NxST has available cash and cash equivalents of Rs 1,036 crore (including mutual fund investments and distribution announced for first quarter of fiscal 2025) as on June 30, 2024.

Outlook: Stable

CRISIL Ratings believes NxST will continue to benefit from the quality of its underlying assets over the medium term.

Rating sensitivity factors

Downward factors:

- Decline in the value of the underlying assets or higher-than-expected incremental borrowings, resulting in CRISIL Ratings sensitised LTV ratio of 40% or above on a sustained basis
- Occupancy level declining below 85% on a sustained basis
- Acquisition of assets of lower quality affecting portfolio health
- Any impact on independence of REIT operations due to but not limited to change in sponsorship of the trust or ownership of the REIT manager

About the Company

NxST is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT under SEBI's REIT Regulations, 2014, as amended. NxST is sponsored by Wynford Investments Ltd (a Blackstone Inc. affiliate). It has 17 retail malls, 3 office spaces and 2 hotels and a solar plant.

The broad details of the assets that are held by Nexus REIT are as follows:

Select Infrastructure Pvt. Ltd (SIPL) owns and operates two retail malls, Select Citywalk in Delhi and Nexus Seawoods in Navi Mumbai. Select Citywalk has a total leasable area of 5.1 lakh sq. ft, of which 99.7% was occupied as on March 31, 2024. Nexus Seawoods has a total leasable area of 9.7 lakh sq. ft, of which 98% was occupied as on March 31, 2024. Nexus Seawoods was earlier held under Westerly Retail Pvt Ltd which has merged with SIPL with effect from May 15, 2023.

CSJ Infrastructure Pvt. Ltd (CSJ) owns and operates Nexus Elante complex, with a retail mall, an office space and a hotel. Nexus Elante, a retail mall, has a total leasable area of 12.5 lakh sq. ft, of which 99% was occupied as on March 31, 2024. Elante Office, an office space, has a leasable area of 0.9 lakh sq. ft, of which 86% was occupied as on March 31, 2024. It also owns and operates a hotel under the Hyatt Regency brand in Chandigarh, consisting of 211 rooms.

Euthoria Developers Pvt. Ltd (EDPL) owns and operates two retail malls, Nexus Ahmedabad One in Ahmedabad and Nexus Amritsar in Amritsar. Nexus Ahmedabad One has a total leasable area of 8.9 lakh sq. ft, of which 98% was occupied as on March 31, 2024. Nexus Amritsar has a total leasable area of 5.4 lakh sq. ft, of which 98% was occupied as on March 31, 2024.

Nexus Hyderabad Retail Pvt. Ltd (NHRPL) owns and operates two retail malls, Nexus Hyderabad in Hyderabad and Nexus Koramangala in Bengaluru. Nexus Hyderabad has a total leasable area of 8.3 lakh sq. ft, of which 99% was occupied as on March 31, 2024. Nexus Koramangala has a total leasable area of 3.1 lakh sq. ft, of which 96% was occupied as on March 31, 2024.

Vijaya Productions Pvt. Ltd (VPPL) owns and operates Nexus Vijaya complex, with a retail mall and an office space. Nexus Vijaya, a retail mall, has a total leasable area of 6.5 lakh sq. ft, of which 100% was occupied as on March 31, 2024. Vijaya Office, an office space, has a leasable area of 1.9 lakh sq. ft, of which 100% was occupied as on March 31, 2024.

Chitrali Properties Pvt. Ltd (CPPL) and Daksha Infrastructure Pvt. Ltd (DIPL) owns and operates Nexus Westend complex, with a retail mall and an office space. Nexus Westend, a retail mall, has a total leasable area of 4.4 lakh sq. ft, of which 99% was occupied as on March 31, 2024. Westend Icon Offices, an office space, has a leasable area of 9.8 lakh sq. ft, of which 73% was occupied as on March 31, 2024.

Safari Retreats Pvt. Ltd (SRPL) owns and operates a retail mall, Nexus Esplanade, Bhubaneswar. It has a total leasable area of 4.2 lakh sq. ft, of which 99% was occupied as on March 31, 2024.

Nexus Shantiniketan Retail Pvt. Ltd (NSRPL) owns and operates a retail mall, Nexus Shantiniketan, Bengaluru. It has a total leasable area of 6.2 lakh sq. ft, of which 97% was occupied as on March 31, 2024.

Nexusmalls Whitefield Pvt. Ltd (NWPL) owns and operates Nexus Whitefield complex, with a retail mall and a hotel. Nexus Whitefield, a retail mall, has a total leasable area of 3.1 lakh sq. ft, of which 96% was occupied as on March 31, 2024. It also owns and operates a hotel under the brand Oakwood Residence in Bengaluru, consisting of 143 rooms.

Nexus Udaipur Retail Pvt. Ltd (NURPL) owns and operates a retail mall, Nexus Celebration, Udaipur. It has a total leasable area of 4.0 lakh sq. ft, of which 93% was occupied as on March 31, 2024.

Nexus Mangalore Retail Pvt. Ltd (NMRPL) owns and operates a retail mall, Fiza by Nexus, Mangaluru. It has a total leasable area of 7.2 lakh sq. ft, of which 93% was occupied as on March 31, 2024.

Nexus Mysore Retail Pvt. Ltd (NMYRPL) owns and operates a retail mall, Center City, Mysore. It has a total leasable area of 3.2 lakh sq. ft, of which 98% was occupied as on March 31, 2024.

Naman Mall Management Co. Pvt. Ltd (NMMCPL) owns and operates a retail mall, Indore Central, Indore. It has a total leasable area of 2.4 lakh sq. ft, of which 94% was occupied as on March 31, 2024.

Indore Treasure Island Pvt. Ltd (ITIPL, investment entity with 50% shareholding) owns and operates a retail mall, Treasure Island, Indore. It has a total leasable area of 4.3 lakh sq. ft, of which 93% was occupied as on March 31, 2024.

Mamadapur Solar Pvt. Ltd (MSPL) owns and operates the Karnataka Solar Park having 15 mega-watt (MW) capacity. Nexus South Mall Management Pvt. Ltd (NSMMPL), provides certain property management and common area maintenance services for some assets of the portfolio, had merged with MSPL w.e.f. April 1, 2023.

Key Financial Indicators*

Particulars	Unit	2024	2023
Operating income	**Rs crore**	**1,916**	**NA**
Profit after tax (PAT)	**Rs crore**	**599**	**NA**
PAT margin	**%**	**27.4**	**NA**
Adjusted gearing	**Times**	**0.29**	**NA**
Interest coverage	**Times**	**4.27**	**NA**

**As per analytical adjustments made by CRISIL Ratings*

NA: Not applicable; as the trust has been incorporated and assets have been acquired in May 2023

Any other information:

Key covenants of the existing debt at REIT

Financial covenants for NCDs	• REIT LTV <= 49% • Net debt to EBITDA <= 6.0x • Asset LTV <= 55%
Call option on NCDs	• Tranche A – date falling at the expiry of 30 and 33 months from tranche A deemed date of allotment (June 16, 2023), exercisable in the manner set out under terms of the issue-call option • Tranche B – date falling at the expiry of 54 and 57 months from tranche B deemed date of allotment (June 16, 2023), exercisable in the manner set out under terms of the issue-call option

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
INE0NDH07019	Non Convertible Debentures	16-Jun-23	7.86%	16-Jun-26	700	Complex	CRISIL AAA/Stable
INE0NDH07027	Non Convertible Debentures	16-Jun-23	8.00%	16-Jun-28	300	Complex	CRISIL AAA/Stable
NA	Non Convertible Debentures#	NA	NA	NA	1000	Simple	CRISIL AAA/Stable

#Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Select Infrastructure Pvt Ltd	Full	100% subsidiary
CSJ Infrastructure Private Limited	Full	100% subsidiary
Euthoria Developers Private Limited	Full	100% subsidiary
Nexus Hyderabad Retail Private Limited	Full	100% subsidiary
Vijaya Productions Private Limited	Full	100% subsidiary
Chitrali Properties Private Limited	Full	100% subsidiary
Daksha Infrastructure Private Limited	Full	100% subsidiary
Safari Retreats Private Limited	Full	100% subsidiary
Nexus Shantiniketan Retail Private Limited	Full	100% subsidiary
Nexusmalls Whitefield Private Limited	Full	100% subsidiary
Mamadapur Solar Private Limited	Full	100% subsidiary
Nexus Udaipur Retail Private Limited	Full	100% subsidiary
Nexus Mangalore Retail Private Limited	Full	100% subsidiary
Nexus Mysore Retail Private Limited	Full	100% subsidiary
Naman Mall Management Company Private Limited	Full	100% subsidiary
Indore Treasure Island Private Limited	To the extent of shareholding	Investment entity with 50% shareholding

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable	03-04-24	CRISIL AAA/Stable	30-05-23	CRISIL AAA/Stable		--		--	--
			--		--	11-04-23	Provisional CRISIL AAA/Stable		--		--	--
Non Convertible Debentures	LT	2000.0	CRISIL AAA/Stable	03-04-24	CRISIL AAA/Stable	30-05-23	CRISIL AAA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
[CRISILs rating criteria for REITs and InVITs]
[CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties]
[Criteria for rating entities belonging to homogenous groups]

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