

Rating Rationale

May 30, 2023 | Mumbai

Nexus Select Trust

'CRISIL AAA/Stable' Converted from Provisional rating to Final Rating; 'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.1000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Corporate Credit Rating	CRISIL AAA/Stable (Converted from Provisional Rating to Final Rating)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has converted its 'Provisional CRISIL AAA/Stable' corporate credit rating to a final rating of '**CRISIL AAA/Stable**' for Nexus Select Trust (NxST), sponsored by Wynford Investments Ltd (a Blackstone Inc. affiliate). CRISIL Ratings has also assigned its '**CRISIL AAA/Stable**' rating on non-convertible debentures (NCDs) of Rs 1,000 crore.

The rating action follows receipt of required documents and completion of the following pending steps

- **Listing of the REIT:** NxST filed the final offer document (FOD) with Securities and Exchange Board of India (SEBI) on May 16, 2023, and subsequently listed on May 19, 2023.
- **Transfer of shareholding of the proposed asset special purpose vehicles (SPVs) to the real estate investment trust (REIT):** The REIT has acquired 100% shareholding in 17 SPVs, and 50% shareholding in the investment entity. The SPVs own and operate a portfolio of 17 retail malls, 3 office spaces, 2 hotels and a solar plant, prior to listing on the exchange.

The company is also in the process of raising debt of Rs 2,250 crore at the REIT level (including secured, rated NCDs of Rs 1,000 crore) for the purpose of refinancing external debt at some of the asset SPVs. Consolidated debt for the REIT is expected to remain in line with articulation provided at the time of initial rating exercise. The credit risk profile, hence, is expected to remain comfortable.

The rating continues to reflect comfortable loan-to-value (LTV) ratio 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 SPVs, in-line with its criteria for rating entities in homogeneous groups. This is because NxST has direct control over the SPVs and will support them in the event of any exigency. Additionally, as per SEBI's, 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, supporting the ability to refinance:** The consolidated gross debt was low at around Rs 4,450 crore as on date. The portfolio has cash and cash equivalents of around Rs 950 crore as on date, and part of the same has been utilised towards prepayment of debt during and post listing; maximum external gross debt after refinancing is expected at Rs 4,250 crore. Consequently, NxST is expected to have comfortable LTV ratio of 18-20% (on gross debt basis as per external valuation dated December 31, 2022). LTV is expected to remain at 22-25%, as any incremental debt being taken will be utilised towards refinancing of SPV debt or acquisition of new assets. The low LTV ratio shields investors from the risk of any decline in property prices and its consequent impact on refinancing.
- **Strong debt protection metrics:** Steady cash flow from rentals should lead to comfortable consolidated average debt service coverage ratio (DSCR) for the existing debt at the SPVs. Debt protection metrics are also supported by strong liquidity of around Rs 950 crore as on date. The debt at SPVs have long tenure of 10 to 14 years, barring investment entity, Indore Treasure Island Pvt Ltd. Long tenure coupled with low leverage, should support debt protection metrics.

- **Stable revenue profile of SPVs acquired by the REIT:** Around 86% 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 assets was around Rs 1,261 crore for the 9 months ended December 31, 2022. These assets enjoy robust occupancy levels, over 95% on an average as of December 2022, and have high upside potential for rentals, given superior asset quality, and favorable location in prime areas within the cities they are situated in.

NxST have total retail area of 9.8 million square feet (sq. ft). The portfolio has a healthy mix of anchors, vanilla, and food and beverage tenants, with top 10 tenants contributing only around 20.2% of gross rentals (as of December 2022). The assets are spread across 14 cities in the country, with the largest asset contributing to 16% of gross rentals (for 9 months ended December 31, 2022). The rating also factors 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, a portion 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, retail malls may continue to face competition from other retail assets and established high streets. The ability of the REIT to continue to reinvent and remain relevant, to tackle existing and new competition, will remain essential. Any 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. 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. Further, a low LTV ratio enhances the REIT's financial flexibility. Consolidated debt is unlikely to cause 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 equivalents of around Rs 950 crore including debt service reserve account (DSRA) as on date.

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 35% 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 with SEBI's REIT Regulations, 2014, as amended. NxST is sponsored by Wynford Investments Limited (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 a retail mall, Select Citywalk, in Delhi. The property has a total leasable area of 5.1 lakh sq. ft, of which 99% was occupied as on December 31, 2022.

CSJ Infrastructure Private Limited (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 December 31, 2022. Elante Office, an office space, has a leasable area of 0.9 lakh sq. ft, of which 75% was occupied as on December 31, 2022. It also owns and operates a hotel, consisting of 211 rooms, is run under the Hyatt Regency brand in Chandigarh.

Westerly Retail Private Limited (WRPL) owns and operates a retail mall, Nexus Seawoods, in Navi Mumbai. The property has a total leasable area of 9.7 lakh sq. ft, of which 99% was occupied as on December 31, 2022.

Euthoria Developers Private Limited (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 8.8 lakh sq. ft, of which 96% was occupied as on December 31, 2022. Nexus Amritsar has a total leasable area of 5.4 lakh sq. ft, of which 97% was occupied as on December 31, 2022.

Nexus Hyderabad Retail Private Limited (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 December 31, 2022. Nexus Koramangala has a total leasable area of 3.0 lakh sq. ft, of which 98% was occupied as on December 31, 2022.

Vijaya Productions Private Limited (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 99% was occupied as on December 31, 2022. Vijaya Office, an office space, has a leasable area of 1.9 lakh sq. ft, of which 100% was occupied as on December 31, 2022.

Chitrali Properties Private Limited (CPPL) and Daksha Infrastructure Private Limited (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 96% was occupied as on December 31, 2022. Westend Icon Offices, an office space, has a leasable area of 9.8 lakh sq. ft, of which 75% was occupied as on December 31, 2022.

Safari Retreats Private Limited (SRPL) owns and operates a retail mall, Nexus Esplanade, Bhubaneswar. It has a total leasable area of 4.2 lakh sq. ft, of which 97% was occupied as on December 31, 2022.

Nexus Shantiniketan Retail Private Limited (NSRPL) owns and operates a retail mall, Nexus Esplanade, Bhubaneswar. It has a total leasable area of 6.3 lakh sq. ft, of which 97% was occupied as on December 31, 2022.

Nexusmalls Whitefield Private Limited (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 95% was occupied as on December 31, 2022. It also owns and operates a hotel, consisting of 143 rooms, is run under the brand Oakwood Residence in Bengaluru.

Nexus Udaipur Retail Private Limited (NURPL) owns and operates a retail mall, Nexus Celebration, Udaipur. It has a total leasable area of 4.0 lakh sq. ft, of which 95% was occupied as on December 31, 2022.

Nexus Mangalore Retail Private Limited (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 72% was occupied as on December 31, 2022.

Nexus Mysore Retail Private Limited (NMYRPL) owns and operates a retail mall, Center City, Mysore. It has a total leasable area of 3.3 lakh sq. ft, of which 98% was occupied as on December 31, 2022.

Naman Mall Management Company Private Limited (NMMCPPL) owns and operates a retail mall, Indore Central, Indore. It has a total leasable area of 2.4 lakh sq. ft, of which 90% was occupied as on December 31, 2022.

Indore Treasure Island Private Limited (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 97% was occupied as on December 31, 2022.

Nexus South Mall Management Private Limited (NSMMPL) provides certain property management and common area maintenance services for some assets of the portfolio.

Mamadapur Solar Private Limited (MSPL) owns and operates the Karnataka Solar Park having 15 MW capacity.

Key Financial Indicators*

Particulars	Unit	2022	2021
Operating income	Rs crore	NA	NA
Profit after tax (PAT)	Rs crore	NA	NA
PAT margin	%	NA	NA
Adjusted gearing	Times	NA	NA
Interest coverage	Times	NA	NA

*The trust has been incorporated and assets have been acquired in May 2023

Any other information: Not applicable

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 instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible debentures*	NA	NA	NA	1000	Simple	CRISIL AAA/Stable

*Proposed NCDs and yet to be placed

Annexure - List of Entities Consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
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Entity Consolidated	Extent of Consolidation	Rationale for Consolidation
Select Infrastructure Pvt Ltd	Full	100% subsidiary
CSJ Infrastructure Private Limited	Full	100% subsidiary
Westerly Retail Private Limited	Full	100% subsidiary of SIPL and 100% step-down subsidiary of NxST
Euthoria Developers Private Limited	Full	100% subsidiary
Nexus Hyderabad Retail Private Limited	Full	100% subsidiary
Vijaya Productions Private Limited	Full	100% subsidiary
Chitralli 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
Nexus South Mall Management Private Limited	Full	100% subsidiary
Mamadapur Solar Private Limited	Full	100% subsidiary of NSMMPL and 100% step-down subsidiary of NxST
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

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable	11-04-23	Provisional CRISIL AAA/Stable		--		--		--	--
Non Convertible Debentures	LT	1000.0	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
CRISILs Criteria for Consolidation

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