"Nexus Select Trust Q3 FY24 Earnings Conference Call"

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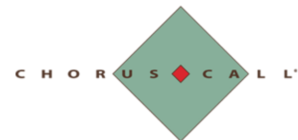

MANAGEMENT: **Mr. Dalip Sehgal – Executive Director & Chief Executive Officer (CEO)**
Mr. Rajesh Deo – Chief Financial Officer (CFO)
Mr. Pratik Dantara – Head, Investor Relations and Strategy
Mr. Jayen Naik – Chief Operating Officer (COO)
Mr. Nirzar Jain – Chief Leasing Officer

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Nexus Select Trust for Q3 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 touchtone 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 this third quarter financial year 2024 Earnings Call of Nexus Select Trust.

At this point, we 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 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, or 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 - Mr. Jayen Naik, and our Chief Leasing Officer - Mr. Nirzar Jain.

We will start off with a brief remark on our business and financial performance and then open the floor to 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 quarter three FY24 results for Nexus Select Trust, India's first retail REIT.

Before we delve into our quarterly performance, I wanted to spend a couple of minutes on the emerging macro trends in the retail real estate landscape in India.

To start with, I would state that the fundamentals continue to be very robust due to favourable demand/supply dynamics driven by essentially four things:

1. Demand in retail real estate for Grade-A space remains extremely strong at 10 million square feet per annum. This compares to a modest Grade-A supply of 3 million to 4 million square feet.
2. India remains on top of the radar of international brands like Tiffany & Company, Apple, H&M, Tim Hortons, Pret A Manger, etc. similarly, domestic brands continue to expand their footprint in India. As per recent leasing market sentiment survey done by CBRE Asia, more than 80% of retailers are looking to add more stores.

3. Increasing mix of demand from luxury brands contributing to ~9% of total absorption, compared to 4% - 5% a couple of years ago.
4. And finally, pivot towards omnichannel is gaining momentum with several digital first brands like Neeman, The Souled Store, The Sleep Company, Mokobara, Snitch, Tira, etc. setting up offline stores.

Let me now share some category trends with you that we are witnessing across our malls. Categories like electronics, jewellery, multiplexes, and family entertainment centers continue to do well. We have been allocating additional space to these categories and will continue to do so going ahead.

Growth within the hypermarket category continues to be moderate and we are actively discussing with the brands that are operating in this category to resize and repurpose their space. In categories like fashion and accessories, we have witnessed some moderation in growth primarily on account of few factors.

1. High base impact where last year post-COVID, these categories witnessed huge surge in consumer spends.
2. Emergence of new competitions
    a. for example, within the value segment, we have witnessed increased competition from new brands like Intune, Yousta, StyleUp, StyleUnion, EasyBuy, etc. Legacy brands are seeing lower growth, while newer brands like Zudio are doing well.
    b. Similarly, within the beauty segment, existing brands are also facing competition from new brands like Tira, SS Beauty, Tata Cliq, etc.
    c. New international brands like Pret A Manger, Tim Hortons, and Paul Cafe have increased competition within the F&B space.
3. Aggressive expansion plans of brands post-COVID wherein they have substantially increased their store counts.

Now coming to the Q3 performance, I am happy to report that we have witnessed the highest ever quarterly tenant sales and highest ever occupancy. During the month of December 2023, 9 out of our 17 malls achieved their highest ever tenant sales. During the quarter, we have also been included in the FTSE Global Equity Index Series which takes our total tally to 4 key global indices across MSCI and FTSE.

Let me now take you through some details on our performance in this quarter which is in line with the projections as mentioned in our prospectus.

1. We closed the third quarter with tenant sales of INR33 billion and clocked a robust 8% year-on-year growth and remember, this is coming in on a very high base of last year which had shown a recovery of 26% compared to pre COVID levels. Our year-on-year tenant sales growth for the nine months ended 31st December 2023 was 14%. In summary, the nine-month year-on-year growth is 14%, quarter growth is 8% and this is significantly higher, almost twice as much as the market.

2. In our key markets of Mumbai, Bangalore, and Chennai, we have witnessed growth much ahead of the market.
3. Occupancy and demand continues to remain extremely strong with most of our malls having healthy waitlist of brands
4. At a consolidated level, our Net Operating Income (NOI) stood at INR4.2 billion, reflecting a 14% year-on-year NOI growth. Year to date (YTD), which is nine months, the NOI growth is 17%. Overall, we are on track to achieve our NOI projections for FY24.
5. We are pleased to announce our second distribution of INR 303 crores, translating to INR 2 per unit. Please note, REIT regulations require us to distribute 90% of the cash flows. however, we are distributing 100% for the period 1st October 2023 to 31st December 2023.
6. The acquisition of three malls in Southern India that we had indicated last time is on track to close post obtaining regulatory approvals.

Let me now take you through some of the reasons for our good performance.

1. **Our strong retailer relationships:** We spoke about this earlier as well. Over the last seven years, we have built very deep relationships with close to 1,000 domestic and international brands through a key account management program. We opened 88 new stores across the malls in this quarter with brands like H&M, Simon Carter, Popeyes, etc. to name a few. We conduct periodically tailored satisfaction surveys to build stronger and more productive relationships with our partners and have consistently scored in the high 90% on this parameter.
2. **Our strategy of leasing:** With strong demand from tenants, our leasing occupancy now stands at an all-time high of 97.3%, which is 110 bps higher than last year. We ensure timely openings of new stores, and our trading occupancy now stands at 96%. We have leased ~250,000 square feet during the quarter, out of which ~210,000 was on account of releasing at a spread of 26%. If you remember, we had indicated a 20% spread in our prospectus. 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 next three years, roughly about 10%, over the next three years. And we do hope to get 20% releasing spread as we had indicated earlier. We continue to churn and resize at the performing brands

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3. **Technology initiative**: As you are aware, we get data from 90% of our retail partners on a daily basis through the automated daily sales report. Using this data, we can regularly evaluate the performance of every store, which enables us to make real-time changes in our decision-making across marketing, leasing, and our ability to introduce new brands, etc., helping us to drive better tenant sales growth and footfall.

So, these are the three things, Strong retailer relationships, our differentiated strategy of leasing, and our strong technology initiatives. Also, I think one very important technology initiative that we have now extended to five more malls is the Nexus One App, which was piloted in Nexus Elante in Chandigarh, and now we've gone to another five malls. And by March of this year, we hope to take it to 10 malls.

We have received very good traction on the app with more than 180,000 downloads, 120,000 sign-ups by consumers who contributed ~5% of tenant sales in these malls.

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

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

This can be evidenced by our performance of the last acquired portfolio of eight malls in South India, which is now leased close to 97%. We have invested time in identifying the gaps in the brand mix based on consumer research and insights, thus making it more relevant and attractive proposition for that specific catchment. Our focus is also on identifying underperforming brands and churning and resizing them. Our leasing efforts were backed with a series of marketing and promotional activities. The occupancy of these eight malls, when we acquired them, was 88% and now, like I said, it's 97%. Corresponding growth in tenant sales is 50% and the growth in NOI is 33%. So that's classically how our business model works, which is that we acquire, and we fix and we make sure that the assets are growing better than before.

Going ahead, for the three malls that we have indicated that we will acquire in South India post all the formalities getting over, we intend to leverage this in-house expertise and skills to turn around these three malls as well.

Another trend that we are witnessing pertains to growth in Tier 2 cities in India. I think a lot has been said and written about it. The relatively smaller markets have fast emerged as catalysts for economic growth and employment, leading to rise in disposable incomes. What has followed is a change in the consumption patterns, resulting in the change of retail dynamics of these cities. Striking example of evolving consumer patterns, consumption patterns in these cities, is our Esplanade Mall in Bhubaneshwar. In Esplanade, in the last nine months, we have witnessed tenant sales growth of 24% and the occupancy now stands at 98%.

Talking about our robust balance sheet, armed with a war chest of close to $1 billion for acquisitions on the back of a low LTV of 14%. We have recently refinanced debt of about INR9.5 billion at a debt cost of 8.1%, resulting in an annual saving of INR115 million. With this, our in-place debt cost has reduced by 10 bps to 8.2%, with dual AAA stable credit rating and no near-term debt maturity.

ESG continues to be an area of focus. We currently have 35 million renewable energy capacity installed and in the current year we have commenced construction of 3.3-megawatt wind power plant, which will meet 60% energy requirements of a mall in Chennai. This project is expected to deliver savings of about INR60 million EBITDA every year and will give a 20% yield on the investment.

Just to summarise,

1. Leasing demand for our assets continues to remain robust, with both international and domestic tenants expanding their footprints and we are at 97.3%
2. Consumption growth in the 9-month period was resilient at 14%.
3. Our NOI growth was 17% in the last 9 months, in line with our guidance.
4. We have now announced a second distribution of INR2 per unit and we remain on track to deliver a full year distribution. This takes the cumulative distribution since listing to INR5 per unit.
5. Our strategy for inorganic growth in the portfolio is active with a healthy acquisition pipeline and we look forward to closing first acquisition post obtaining regulatory approvals.

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 Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Good evening, everyone. Thank you for the opportunity. So, my first question is on our consumption. Obviously, from a high double digit, we have now gone to a high base where we are at a high single digit in this quarter at around 8%. So, going forward, do you think that this is going to be the normalized trend as we head into next year? That is the first question

Second question is on our planned acquisitions in South India, would these assets directly come into the REIT or would you like to first spend some time doing some upgrades and maybe looking to change the tenant mix before integrating it into the REIT so that they start delivering better numbers from the get-go itself? Those are my two questions.

Dalip Sehgal: Okay, great. Thank you for your question. Let me answer your first question on the consumption pattern. I think the fact is that after a very, very strong growth in Q3 last year, some moderation was expected. I think there is, like I said, some slowdown that may have happened in the fashion category, but we'll just have to wait and see. One quarter does not make a year, so we'll just have to wait and see what happens.

But going forward, please remember that in our projections as well, in the IPO document, we have given a CAGR of high single digit in terms of consumption growth. So, we are well on track to achieving this. I think clearly in the first half, we were way ahead, and even today at 8%, we are twice of the market growth.

So, in that sense, if you look at how our tenant sales have gone, companies that have reported sales so far, and some of the other players in our markets, clearly we have done significantly better. To your second question, the malls that we acquired will all be acquired within the REIT itself, and all the upgrades, tenant mix changes, etc. will happen within the REIT.

Adhidev Chattopadhyay: Okay, fine, sir. That was all from my side, and I wish you all the best.

Dalip Sehgal: Thank you so much.

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

Mohit Agrawal: Yes, thanks for the opportunity. Sir, my question is actually similar to what was asked earlier, just a little more detail I want to go into. So could you share as to between the consumption moderation that you've seen between premium and value. You mentioned about value seeing some moderation, legacy brands kind of reporting lower growth. So, could you comment on the premium versus value? Where have you seen higher moderation, and does premium continue to do well, or you've seen moderation in premium as well? That's first.

And secondly, could you also share what has been the footfall growth? And earlier, what we had seen is that despite low footfall growth, the consumption was doing well. So basically, the people were spending more. Has that trend now reversed, and is the footfall growth now in line with the consumption growth?

Dalip Sehgal: Okay, I think both questions are good. Let me take your second question first. If you take the nine-month period, and the reason why I'm taking nine months is there can be aberrations in a quarter. And ideally, I think we should look at slightly longer-term trends.

In a nine-month period, footfall growth has been 8%, whereas the sales growth has been 14%. So that will give you a sense of what's happening on footfall as well as trend per footfall. So, both have grown. 8% growth in number of footfalls and 14% increase in sales, which means that trend per footfall has also increased. So that's your second question.

Your first question was about premium brands versus, value brands. I think there's no short answer to this. So, Mohit, I think what has happened is that if you look at the premium brands, they've all done well and I think if you take electronics, if you take consumer durables, large screen televisions, mobile phones, the whole category has grown 20% plus. If you look at jewellery, and despite the higher gold prices, jewellery has done well.

So, all the premium brands, in a sense, even watches, to that extent, have done well. So, I think there is a set of consumers who continue to spend the way they were spending, in fact, perhaps even more. That's also getting reflected in categories that are outside the mall.

So, for example, if you see travel, if you see airlines, if you see international excursions, holidays, etc. and real estate as well, the number of units that have got sold. So, I think there is a set of people who are spending what they're spending.

At the value end of the market, typically that's how most markets behave, which is the value end of the market that does get squeezed to some extent. And like I said, fashion, which is now almost 40%-45% of our business, the value part of it is the one that has got squeezed, both from an overall consumption perspective and also from a competition perspective.

To give you a sense, fashion overall grew at roughly 5% in the nine-month period and grew flat in this quarter. But in the same quarter last year, fashion had grown 21%. So, we're cutting off

some very, very high numbers in terms of post-COVID growth. And some of it, I guess, was projected, estimated, etc. because you cannot sustain in any category a 25%-28% growth.

So that had to be moderated. But I think basically what's happened is that in fashion, especially the mid and the lower segment have not done as well as we thought they would. The top end of fashion is still doing well.

So that's roughly the short answer to your question.

Mohit Agrawal: Sure. Understood, sir. It is very clear. Sir, on the acquisitions, typically, like on the prestige acquisition, if I may ask, is it fair to say that now the entire turnaround and the reorganization that you had to do, is it now complete and it is there in the base?

Dalip Sehgal: Yes. So, the turnaround is complete, the growth is not. I think we continue to see very strong growth even in this quarter in the south. And it has been our best performing region, even in this quarter. So, to your question, yes, the answer is that whatever had to be done in terms of investment, you can put in more than INR100 crores upgrading the assets, you put in a lot of money into marketing, you put in a lot of money into processes, technology, IT systems, etc. All that is done and dusted.

And that is the reason why we've seen a 50% growth in sales and a 33% growth in NOI in our south portfolio. But going forward, I think that those assets will still continue to grow quite well.

Mohit Agrawal: Okay. And sir, just one last question on Select City Delhi. The in-place rentals have been, you know, kind of flattish over the last year or so.

So, any thoughts on that? Is that how that market behaves or is it particularly right now that, you know, the rentals have been flattish and what is the outlook there?

Dalip Sehgal: Let me ask Nirzar, our head of leasing to take that on.

Nirzar Jain: I think in Select as well, we are witnessing good rental growth. Obviously, the rentals there are in the zone of between INR800 and INR900 rupees on carpet which is one of the best rentals in South Delhi. So, we are seeing the demand for space continuing to be high, a lot of actually lease up happened in the last year within the additional area.

There's not much activity in terms of new lease up that has happened. And it involved, you know, the flagship Apple store getting launched there, for which they're to relocate and create spaces, some anchor movement that happened. But as you see more vanilla stores coming up in the coming year, year, and a half, we'll see similar demand and traction in terms of growth continuing.

Dalip Sehgal: Yes, I think the demand in Select continues to be very strong. In fact, there is a long list of brands that want to come in both international as well as domestic. So, I think that on the demand side, there's nothing. It's probably the timing of it as Nirzar explained, which is probably the issue.

Mohit Agrawal: So fair to assume, sir, a mid to high single digit kind of like-to-like rental growth there?

Nirzar Jain: The rent growth will overall be in the range of high single to low double digit.

Mohit Agrawal: Okay, perfect. So, thanks a lot. Those are my questions and all the best.

Moderator: Thank you. Next question is from Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Yes, thank you so much. My first question is on your acquisition. If you can comment upon, you know, how big is the acquisition likely to be? And what kind of debt equity mix are you likely to undertake for that?

Dalip Sehgal: Okay, it's a 1 million square feet acquisition. So, as you know, our current total portfolio is about 10 million square feet. So, we'll add about 10% to our portfolio. We are currently 17 malls, three more. So, we'll be 20 odd malls post acquisition. In terms of debt and equity, I think it is not clear as of now because the deal has still not got rectified.

And as soon as it does, we will let you know. Pratik or Rajesh, you want to add something?

Pratik Dantara: So Puneet, I think from a deal standpoint, we're still under the Non Disclosure Agreement (NDA) with the sellers. So, at this point, we might not be able to comment on the value. But like Dalip mentioned, it's a 10% addition to the area that these assets give us.

Puneet Gulati: Okay, understood. And on your South Portfolio, you said that there is still room for it to grow above the normalized run rate. How long do you think it will take for these assets to normalize and then go to a more regular run rate? Do we have a one year or two-year kind of runway here?

Dalip Sehgal: So, I think what's important for us to understand is that what is normal, and in which kind of markets are we operating. So, if you take the portfolio, it is in Hyderabad, Bangalore, it is in Chennai, all these markets, in a sense, the economy is doing very well, thanks to the IT growth, etc, younger people, lots of families. So, all these markets are growing well, right and there is no one size fits all. It not like, if overall, we grow at 8% or 9%, South Portfolio will also grow at 8% or 9%. Yes, in fact, even in the non-south portfolio, there will be markets, like I said, Bhubaneswar, which is growing at 28% There's Seawoods, which is growing at 20%, Navi Mumbai, one of the fastest growing malls in Mumbai metropolitan region. So, it depends entirely on the micro market and the growth that is happening in consumption over there, which is obviously dependent on how per capita incomes are moving, how people are spending, new set of families moving into those areas, etc..

But at an overall level, I think there is still growth left in the portfolio, and certainly for the next couple of years.

Puneet Gulati: And for your big assets, which is Select City, Elante, do you think there is enough room for footfall to grow as well, and the physical infrastructure may not necessarily be a constraint in terms of parking, etc.?

Dalip Sehgal: I think two questions on, you said, is there enough potential for growth in footfalls or not? Obviously, the Select City growth, as you would have seen in the numbers, obviously, has been pretty robust. I think the whole strategy of having brands like Apple coming in, larger stores for

Nike and Adidas, new restaurants, bigger F&B, and a lot of new international F&B brands, I think that's helping. And it's clearly a fast growth market for us. As far as the second question is parking, is it?

Puneet Gulati: Yes.

Dalip Sehgal: Yes, parking is a bit of a challenge. I think in most of our malls, I think we have adequate parking. But yes, in some cases, it can be a bit of an issue.

Puneet Gulati: For the larger ones, Citywalk, Elante, Seawoods?

Dalip Sehgal: There is no issue. Seawoods has lots and lots of parking space. So does Elante. I think in Elante also there is no issue. But I think the only question is that, how do we ease that whole parking process which is a pain point for people who go to malls. Yes, the key is that with the app, you can now actually pre-book your space. We have fast tag everywhere in all the malls. So, the entry, exit is much faster than what it used to be. So, the churn of vehicles is much faster, queuing is less. Also, the app allows you to figure out where your car is parked so you don't have to waste a lot of time. So, in whatever way we can, we are also trying to help the customer to enter and exit more comfortably than before using whatever technology and as we go forward, I'm sure there's so much happening in this whole area of parking that we will find new ways of easing this pain.

Pratik Dantara: And Puneet, just to add, going back to your previous question on growth, I think in the South Portfolio acquisition, now that we are like 97% kind of occupied, I think the whole thrust is now to talk to underperforming brands, trying, and churning them out, trying to get better performing brands, trying to get more premium brands. These are the trends that we're seeing in the market. So, the whole thing around filling up space is now behind us. Now it's about just getting the right quality of tenants in, the tenants that will get you growth, the tenants that will get you better rentals. I think that's the focus for us.

Dalip Sehgal: Yes. Consumption growth continues to be a key priority for the business. We will continue to focus on making sure that the consumption growth continues at a reasonable pace.

Puneet Gulati: Understood. That's it. Thank you so much and all the best.

Dalip Sehgal: Thank you.

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

Praveen Choudhary: Yes. Hi. Thank you. Hi, Dalip. How are you? I have a couple of questions and thank you for taking my question. Let me just hop in quickly. I had a question about, turnover rent, if you can share for 3Q or nine months, if that's easy to share. The second question was, like other REITs, you don't have that long a history. So I want to understand, imagine next year you have the NOI growth of 10%. Would it all translate into dividend growth or there would be things that could

challenge it? I see that interest expenses actually declining rather than going up as you're refinancing. So that should not be a problem. So that was another question I had.

And the last question I had about the acquisition. So, in case of Hyderabad, a lot of data is available in the media, but you can take a hypothetical case to explain us when you do these kinds of deals, how does it become accretive? What numbers you look for either from a return perspective or being accretive? So, just to understand that what kind of accretion that you have done to bottom line to us? Thank you so much.

Dalip Sehgal: Okay. Maybe I can ask Pratik to take these.

Pratik Dantara: I think, Praveen, there were three questions. I'll just try and answer each one of them. On the NOI growth, let's say you said the example of 10% and what kind of dividend growth or distribution growth that you see. Typically, you should see the distribution growth also in that range of 9%, 10%. So that should kind of flow down.

On the turnover rentals, turnover rentals would be approximately 11%, 12% of our total rentals. So that's the saliency of turnover rentals to our total rentals.

And coming to the acquisition point, I think we typically would look at because these are assets that are under-managed, under-leased, we would look at turning them around and over a period of 12 to 18 months, trying to make these accretive.

Now, some of the factors that we kind of look at when we are even acquiring the assets is, and as we are doing diligence, is the kind of value add that we can do in some of these assets, how we can ramp up the portfolio. And a classic example of that is in our presentation itself, which is the mall in Mangalore, which is Fiza. When you've seen that, we've got the occupancy ramped up, we've got the NOI up, and we try and follow a similar template across. From an accretion standpoint, obviously, at what cap rates you do the deal versus what cap rate you're trading at, that's something on the back of our head when we value some of these assets.

Praveen Choudhary: Thank you very much. One last question for me, mark-to-market you mentioned is more than 20% for this quarter, I think 26%, you said. How does it look going forward? Let's assume you want to take a fourth quarter or FY '25 in general. And finally, in terms of the growth rate transmission from tenant sales growth, so consumption growth to rental growth, do you think that transmission mechanism will also be linear or similar, or there would be some things that we should consider? Thank you. That's all for me. And by the way, very good results, of course. Congratulations.

Management: Thank you.

Nirzar Jain: Hi, this is Nirzar. In terms of mark-to-market trends, for this quarter we are on track that at 24% overall and I think that's how we see the trend going. That's part one of the question.

Pratik Dantara: And part two, I think over a longer period of time, Praveen. I think when you see consumption growth, let's say hypothetically in the range of 10%-11%, you should see NOI growth lag

consumption by upto 200 bps. So, it should be in that range of about 9% to 10%. That's what we feel longer-term trend on consumption and NOI growth would be.

Praveen Choudhary: Thank you. Thank you very much. Very clear.

Dalip Sehgal: Thanks. Thank you. Thank you for your questions.

Moderator: Thank you. The next question is from Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Great. Thank you. My first question is also going back to the mark-to-market value of about 20%. Could you remind us of what time frame are you expecting this to sort of convert into growth for you? Or what time frame do you realize this?

Nirzar Jain: Hi, this is Nirzar. In terms of if you see a lease versus trading occupancy, the gap is about 120bps. The lag is only when you churn or when you renew and there is some fit-out period loss. So, the conversion is within a period of three to four months itself. So, there's hardly any lag.

In terms of the way ahead, in terms of what is coming up in the next 12 months to 15 months, we have a million square feet coming up in terms of expiry. And we would look at a similar spread over the next 12 months to 15 months of achieving between 20% to 22% in terms of MTM spreads.

Pratik Dantara: And Kunal, this is in line with what we've actually achieved in the past. So, over the past 6 years, if you see our average trend, the MTMs have been in that range of 20%.

Kunal Tayal: Okay, got it. So, I think on a go-forward basis, we should basically forecast this to follow the renewal pipeline that you have. Would that be a fair assumption?

Rajesh Deo: Yes. like Mr. Sehgal mentioned, I think over an average 0.8 million square feet comes up for renewal every year.

Kunal Tayal: Understood. Okay. My next question was, if one were to make the assumption that the consumption growth going ahead, which are back to the high single digit range that is sort of the base case for you as well, does it slow down your prospects to achieve a higher rent to sales or would it be independent of that?

Nirzar Jain: I think over a period, the rents catch up with the consumption growth. There's generally a lag of 100 bps to 200 bps in terms of the catch up. But as the consumption grows, 90%+ of our tenants are now on turnover rent, it kind of catches up translating into higher rents as well. But the general lag off is between 100 bps to 200 bps in terms of consumption grows and the rent catch-up

Pratik Dantara: And Kunal, actually what happens is when you have this consumption growth consistently kicking in, when some of these contracts come up for renewal, you try and subsume the revenue share piece into the minimum guaranteed rental. And therefore, for a defined time frame, let's say 15, 18 months after that renewal process, you really don't get any revenue sharing, because

that's all subsumed under the minimum guaranteed rental. So like Nirzar was saying, it's a process, it keeps subsuming itself as we keep growing consumption.

Kunal Tayal: Understood. Okay. So just to confirm that, because Pratik, I was really on the lookout for what it could mean for your revenue share part. So it seems like the answer here is that if consumption growth goes down, maybe it sort of delays a little bit the capture into rental conversion. And instead of direct share, it now gets contracted in the next escalation and it would flow, but the lag would be higher than let's say if consumption growth was at a higher percentage?

Dalip Sehgal: It doesn't make a very big difference. So if you look at traditionally, revenue share has been around 12% or 13% of our rentals. And this quarter, despite a slightly moderated growth, I think it would probably be in the vicinity of 11% to 12%. So it's not as very steep change that happens. But yes, as long as we continue to grow at high single-digits, I think we're reasonably okay to get about 11%, 12%, which is what we had projected of our rentals coming in from sales-linked incentives.

Rajesh Deo: And Kunal, just to add, if you recollect our sensitivity analysis that we had done in the prospectus, a reduction or increase of sales by 5% impacts 1% of NOI.

Dalip Sehgal: Yes. So that's roughly what it is. But the fact is that I think there's no question that yes, there will be some short-term impact that can happen.

Kunal Tayal: All right. Okay. And then the final one, just looking at your asset-wise performance, anything much to read into what's going on into the Ahmedabad mall? Could it just be some local factors here and there with respect to competition?

Dalip Sehgal: Yes. So I think in Ahmedabad, clearly there is a new mall, a very large mall that has opened up, as you know. And it's now been operating, I think, for some time because it opened in Feb of last year. So it's almost a year. And what we have seen is that, yes, in a market where there was actually just one mall, now there are two malls. So to some extent, yes, there is some impact that's happened.

Also, as a city, I think what's happened is that the high street also has become very active. So the phenomenon that's happened across a large number of cities is that because the stock available for rental in malls was limited, there's only that much that malls would offer. And if they're at 97%, 98% leased, people started obviously going out to high street as well.

So a brand which has, let's say, two stores in a city like Ahmedabad now has five. So to that extent, there is some impact that will happen. I think we are coming back to almost 100% recovery now in Ahmedabad. And my sense is that once that correction has happened, we will hopefully see a growth from here onwards.

Kunal Tayal: Perfect. Thank you so much.

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

Parvez Qazi: Hi, good evening, and congratulations for a great set of numbers. So the question from my side is, I mean, if one looks at media reports regarding your proposed acquisition, it says that some of the malls might be of, let's say, 0.2 to 0.3 million square feet size, and the leased occupancy could be around 84%. Now, without going into the asset details, the broad question about your acquisition philosophy is, in general, would we want to acquire malls only with, let's say, 80%, 84%, 85% of occupancy so that we get the benefit of a turnaround?

Or are we okay with acquiring malls even with higher occupancy levels? And the second is regarding size of the malls. While we have acquired large-size malls in the past, but going ahead, do we have a certain size in mind that we would want to acquire maybe 0.3, 0.5 million square feet malls? Or are we okay with even a million square feet malls that we have acquired in the past? Thank you.

Dalip Sehgal: Okay, Parvez, two or three questions I think you've raised over there. The first one is in terms of a specific question which obviously I cannot answer directly but suffice it to say that it's not just the size that matters when you're looking at acquisition. Of course, it does to some extent. I think what is the value add that we can bring around. Let's assume that a mall is, like in the case of Fiza, which was in Mangalore, 700,000 square feet mall, too large for that market. Already one existing mall doing very well. And I think our leasing when we acquired was in the 70s. Today, it is almost 90%. So it's a question of, in that micro market, you could have argued that, look, what will a 700,000 square feet large mall do? So it can work both ways, small as well as big. So I think the way we look at it is that what is the value that we can add? So these three malls we've looked at in great detail. and our sense is that not just on the leasing side, I think in terms of business, and that is very important. How do you improve footfalls? How do you improve sales? In the South portfolio, we have increased sales by 50%, and that is what leads to better business. That's what leads to better rentals and so on and so forth. So the fact that whether it is now 88% or 89% leasing can go up to 94% or 95%, it's just one part of the entire equation.

I think the larger part of the equation is, how do we improve business, both by increased leasing, better brands, maybe some of the brands are not appropriate for that micro market, and we can leverage our strengths. So for example, again, going back to Fiza in Mangalore, H&M, we got H&M to open over there. We got Starbucks to open over there.

So we got some of the very marquee brands to go to Mangalore because of our connect with them and so on and so forth. So I think that's really what it is. If you ask me, on a thumb rule basis, would we want to acquire standalone assets of anything which is very, very small? The answer is no. I mean, that obviously we would not. But if we were acquiring three and let's say out of that, one was slightly smaller, as long as it is in a micro market, which offers a potential, I think we will do that.

Parvez Qazi: Sure. Thanks and all the best for future.

Dalip Sehgal: Thank you.

Moderator: Thank you. Next question is from Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Hi, just two questions. One is, what will be the like for like consumption growth excluding the additional area in Select? I mean, if we strip out this stake because that was ramping up last year. So what would be the like for like? And second is when you acquire these malls, do you also take over the leasing team or what happens to that? Thank you.

Dalip Sehgal: So just repeat the second question, please.

Saurabh Kumar: So when you basically buy the new malls, the existing, let's say, the leasing team and the management services, I mean, there'll be management services contract, let's say, of them, do you replace that or do you also kind of take over that?

Pratik Dantara: Sure. So taking a second question for us, I think when we acquire malls, our typical going in strategy is that we take over people, we kind of integrate them in. Again, some of these strategies differ depending on the market that we are kind of acquiring. With an existing market, you obviously try and sweat it out and try and leverage the manpower that you have within the team. And therefore, you get synergies in. But if it's a new market, you definitely want to take over the team, integrate them in and then take it up. So that's what we've done over the years when we entered new markets.

On the first point around like for like consumption growth, excluding additional area in Select, it's half a percent to a percentage lower when we kind of strip out the additional area.

Saurabh Kumar: Okay, got it. And just one last question. So like when you take these malls, there'll be an additional, capex to let's say for the refurbishment. And so that strips out from your NDCF or that adds to that and over time, I mean, with higher NOI, that kind of?

Rajesh Deo: So we normally funded through debt, because it's a onetime upgrade, capex is material. And that is how we have kind of model in the prospectus also.

Saurabh Kumar: Perfect. Thank you.

Pratik Dantara: And Saurabh actually, when we even acquire assets, the way we look at cap rates, etc. is including the additional capex that we need to kind of upgrade some of these assets. So when we talk about cap rates, it's an all-inclusive cap rate for us.

Dalip Sehgal: So the valuation is done, keeping in mind how much of investment we need to make, not just in upgrading the asset, but also in terms of additional marketing, etc.

Saurabh Kumar: Yes, but I guess the logic is that the consumption under you is much higher.

Dalip Sehgal: Yes, that's right. Okay, great. Thanks Saurabh.

Saurabh Kumar: Thank you.

Moderator: Thank you. As there are no further questions on behalf of Nexus Select Trust, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

Management: Thank you.

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