"Nexus Select Trust Q1 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 & Strategy
Mr. Jayen Naik – Chief Operations Officer (COO)
Mr. Nirzar Jain – Chief Leasing Officer

Moderator: Ladies and gentlemen good day and welcome to First Earning Conference Call of Nexus Select Trust for Q1 FY24.

As a reminder, all participants' 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, please signal an operator by pressing '*' then '0' 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: Thanks, Aman. Good evening, everyone and thank you for joining this Q1 FY24 Earnings Call of Nexus Select Trust.

Joining me today are Mr. Dalip Sehgal – Executive Director and CEO, our CFO - Mr. Rajesh Deo, our COO - Mr. Jayen Naik, and our Chief Leasing Officer - Mr. Nirzar Jain.

Before we start, a couple of important disclaimers.

The management may make certain statements that may constitute forward looking statements. Please be advised that our actual results may differ materially from those 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 procedure. 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.

With this, we will start off with brief remarks on our business and financial performance and then open the floor to questions. Over to you sir.

Dalip Sehgal: Thank you Pratik. Good evening, everyone. It's my pleasure to welcome all of you to the first earnings call of the Nexus Select Trust, India's first retail REIT for Q1 FY24 Results.

As you all perhaps know, Nexus Select Trust is India's No.1 mall platform with completed area of almost 10 million square feet and has a pan India presence with 17 malls across 14 cities in both metros and mini metros like Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Ahmedabad, Chandigarh and Pune. In each of the markets that we operate in we are either the No.1 or a very strong No.2 player.

Let me now look at our performance in the quarter and give you specific operational updates:

1. I'm happy to inform you that we closed Q1 FY24 with retail tenant sales of INR 29.3 billion and clocked 18% year-on-year tenant sales growth on a like to like basis. I think that's important. It's for the same set of malls. Our overall performance is ahead of our

projections. At a consolidated level our net operating income (NOI) stood at INR 3.9 billion, up 18% year-on-year and NOI margin stands at 74% up 360 bps. Some of our top performing categories in this quarter were jewelry, beauty & personal care, footwear and athleisure.

2. In our key markets, our tenant sales growth has been significantly ahead of the market. In cities like Mumbai and Bangalore, we are around 1000 bps higher than the market. In other cities like Pune and Chennai, we are 400 bps and 200 bps higher, respectively.

Let me now talk a bit about some of the reasons for our strong performance:

1. Our strong retailer relationships. Over the last 7 years, we have built very deep relationships with close to 1000 brands through our key account management program. Our malls are typically the first port of call for several national and international brands which are looking at India to expand their footprint. For example, brands like H&M, Zara, Masimmo Dutti, Tim Hortons, Burger King, Sephora. All of them opened their first in country stores at our malls. Recently, Apple also launched one of India's only two flagship company owned stores at Select Citywalk, Delhi. With the recent trend of growth in Omnichannel D2C brands like Nykaa and Lenskart have opened their first physical stores with us and are now present in 80% of our malls. We opened 110 new stores in our malls during the quarter and some of the marquee brands that have opened the stores are H&M, H&M Home, GANT, Armani Exchange, Hugo Boss, Time Zone. So that's the first one, which is strong retailer relationships.
2. Our strategy of leasing and repurposing:
    - First, with strong demand from tenants for our properties our occupancy has now gone up to 97% which is 300 bps higher than last year. Today, most of our malls have a healthy waitlist of brands looking for space. We are now ensuring timely new store openings and our trading occupancy grew by 500 basis points year-on-year and now stands at 94%. We have leased 0.4 million square feet during the quarter across 186 deals, out of which 0.3 million square feet was on account of re-leasing. Our re-leasing spread stood at 21% in line with what we had projected. We have a stable lease expiry profile with average annual expiry of about 0.7 million square feet every year over the next 4 years.
    - Secondly, we have adapted to the changing consumer, shopping behaviors and actively repurposed areas within our portfolio taking back areas from hypermarkets and department stores and replacing them with growing categories like beauty, personal care, electronics, footwear, fitness, F&B and entertainment. For example, we recently made space for Apple at Select Citywalk by relocating some brands to a higher floor. Similarly, at Nexus Vijaya, Chennai, we have repurposed the area occupied by a major department store and hypermarket to introduce brands like Decathlon and Shopper Stop. This has contributed to better tenant sales and resulted in higher releasing spreads.
    - The third reason is our real-time tenant sales data. As you are perhaps aware, we get sales data from over 90% of our retail partners on a daily basis via what we call the

Automated Daily Sales Report (i.e., ADSR). Using this data, we regularly evaluate the performance of every single store, which enables us to make real time changes in our decision making across marketing and leasing to enable us to drive tenant sales growth and footfall. For example, seeing the strong athleisure demand, we curated specific campaigns called Sneaker Fest and Denim Fest to capitalize on this trend and both these did extremely well.

- The fourth one is really appropriate marketing and activation. Our scale allows us to invest in large marketing campaigns, like the signing of Bollywood superstar Amitabh Bachchan as the pan India Happiness Ambassador. The uniqueness of our marketing innovation helps us to draw more footfalls and happy to tell you that we have seen a 10% increase in footfalls in this quarter. Families are spending more time not only for shopping, but also dining at our restaurants, watching movies and children are having a lot of fun at the family entertainment center.

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

As we have said earlier, our business model is unique and based on acquisitions, we acquire assets that have been underinvested and/or undermanaged. With our capability to invest in upgrading the assets, bringing in better and newer premium brands, investing in appropriate advertising, standardization of costs, we are able to significantly enhance the value of the acquired assets.

One such example is our first acquisition in the year 2016, which was Mall of Amritsar. We increased leased occupancy from 65% at the time of acquisition to 98% now. We introduced brands like H&M, Starbucks, etc. and improved the business performance by a factor of 2X. Another good example of this is our acquisition of eight malls in South India in March ‘21 in the midst of COVID which helped us to expand our footprint. We 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 leasing efforts were backed with a series of marketing activities. We also successfully executed one of perhaps the largest rebranding campaigns in Indian retail by bringing all the malls onto the Nexus platform. The occupancy of these eight malls that were acquired in March ‘21 went up from 88% at the time of acquisition to 95% currently and their NOI is on track to grow by 18% in FY24.

Another example is that of our mall in Mangalore which had leased occupancy of only 72% when we acquired. Today it's at 85%. We did all this by improving the brand mix and leveraging our deep tenant relationships.

Finally, part three, which is really talking about the strong balance sheet that we have. We have a robust balance sheet with active capital management capabilities and are armed with a war chest of close to $1 billion for acquisitions on the back of a low LTV of 15%, which is what we had projected. Our team continues to be in discussion with few leading developers in the country to evaluate possible acquisitions. We will announce these at an appropriate time. We've also recently raised debt of INR 22.5 billion at an average cost of 8.2% versus 8.5% in the projections, resulting in an annualized interest cost saving of close to INR 110 million. Our in-place debt cost is 8.3% with a dual AAA/ stable credit rating.

A quick word on our hospitality and office business, which accounts for only 9% of our NOI. Both these businesses have performed in line with our projections. As you are aware, we had a strong response to our IPO from both domestic and international investors and was oversubscribed 5.5x. In the IPO we saw strong performance from 24,000 investors. We continue to work along with other industry participants to improve awareness of REIT among retail investors.

As updated above, we are on track to achieve our projections as mentioned in our offer document.

Before I end, let me take you to three important updates

First, while the key business indicators included in the presentation are for the period 1 April 2023 to 30 June 2023, it's important to note that the formation transaction wherein the REIT acquires all the portfolio SPVs have been completed only on 12 May 2023. Accordingly, the statutory consolidated financial statements have been prepared from 13 May 2023 to 30 June 2023. This is an important one.

Secondly, I want to reiterate a point that we had already covered in the annual meet held on 27th July 2023 pertaining to Q1 FY24 distributions. A first distribution shall be made post Q2 FY24 and will cover the entire period from the date of listing, which is 19 May 2023 to 30 September 2023. Further, as of 30 June 2023 we have generated adequate cash to affect this distribution and going ahead we will endeavor to distribute on a quarterly basis.

And the last point before I close, we have continued our consumption growth momentum right through the month of July, despite heavy rains across the country.

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

Moderator: 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.

Adhidev Chattopadhyay: You alluded in our opening remarks to a 10% increase in footfalls, which implying an 8% increase in the average spend per visitor. Could you also help us understand, among the categories which categories would have outperformed and what would be the laggards in terms of percentage terms, if you can share on the consumption growth number? That is the first question.

Dalip Sehgal: I think that's a good question. In terms of our top performing categories, jewelry grew at 28%, electronics grew at 32%, beauty & personal care at 19% and footwear and athleisure at 16%.

The categories that did not do so well is first of all the hypermarkets because as you know, over a period of time, I think a lot of grocery shopping has actually moved online, etc. So that's one category that did not do too well. Apart from that, most of the other categories have actually done well and the ones that I spoke about, the top five have all done higher than the average of 18% odd percent.

Adhidev Chattopadhyay: So, could you share number for multiplexes and overall, for that because I think that would see a bump up in this quarter compared to the last one? So, if you could just throw some light.

Dalip Sehgal: I think in cinema, the recovery was more than 100%, especially towards June where you had some good releases. I think what's more important is that going ahead into July because of the number of titles that we saw, both international as well as domestic I think cinemas have come back very strongly in the last 7 to 8 weeks, and we see this trend continuing into August as well.

Adhidev Chattopadhyay: The second question is on NOI margin. Obviously, we have seen quite a bit of improvement from the FY'23 numbers in the 1st Quarter. So, when do you think we are likely to cross a 75% plus NOI margin at a portfolio level during the year?

Dalip Sehgal: I won't speculate on that. All that I can tell you is that we now have an NOI margin at the end of the quarter at 74%, which is up 360 basis points and this is actually ahead of the projections that we had done earlier. So, I don't know when we will reach 75%, but we are very close to that number.

Moderator: The next question is from the line of Kunal Tayal from Bank of America.

Kunal Tayal: My first question, I just wanted to sort of understand better this number of 18% consumption growth. Could you give us some context where does this lie versus the prior two or three quarters and how would you generally think about, what sort of could be a sustainable number or a trend over the next few quarters on this metric?

Dalip Sehgal: Sure Kunal. I think that's a very good question. First of all, I think two or three things that I want to point out. One is that I think we all will make FY23, four quarters as a base and as a reflection of what the growth was. Clearly, FY23 was the first year, first four quarters post COVID and the growth across categories was significantly higher than it has been in the last 2 years. As far as this quarter is concerned, that 18% is like-for-like. I just want to clarify it. It's like-for-like. So, we have taken all the malls that existed earlier as well—may be with us, may not be with us but we've taken—this entire base of Q1 last year, and we've taken Q1 this year. So, it's a like-for-like comparison. I think that's important for you to understand. It's an 18% like-for-like comparison. On the second part of your question, I'm sure there are enough research reports which do indicate that the market/ consumption growth, is perhaps between 8% and 10% odd and that is the trend that's I think likely to continue. Our endeavor, obviously, would be to do better than the market and meet the projections that we had set for ourselves in the Final Offer Document (FOD).

Kunal Tayal: My second question is on the inorganic pipeline. I mean, I heard you say in the opening comments that you are evaluating a few. I just want to check if we could consider something as imminent for FY24. Seem to recall a media interview where you said that the pipeline is quite active at this point in time.

Dalip Sehgal: I think I will repeat that the pipeline is active. We are in touch and in talks with, like I said, few developers and at an appropriate stage we will let you know.

Moderator: The next question is from the line of Mohit Agrawal from IIFL.

Mohit Agrawal: My first question is actually in continuation of the earlier question on consumption. So now that you're saying that consumption growth against 8% to 10% industry growth, you'll be outperforming. How should we look at rental growth going forward as well? Do we think that you could maintain at an 18% consumption growth? Could you see that kind of a rental growth as well? And the second part to that question will be that in your Draft Offer Document (DOD) your rent to sales ratio was 11.8%, your only listed peer is tracking numbers which are higher than that. So how do you see that moving and what was that number this quarter?

Dalip Sehgal: May I request Nizar to take that on. Nizar, is head of leasing for Nexus Select Trust.

Nirzar Jain: In terms of rental growth, our portfolio trading occupancy is 94%. In terms of lease up, we've seen strong releasing spreads at 21% in terms of activity that we've done, our growth in revenue from operations is in line with our past performance. I think in the FOD, we had conservatively projected the revenue from operations to grow at about 7-8% CAGR

Dalip Sehgal: To your question about competitively, how do we compare. I think do remember a couple of things. One is that our model is an acquisition model. So, we do acquisitions and as part of the acquisition, we also inherit a certain rent to sales ratio as you will appreciate. As we go forward and I gave you the example of a few assets where that has moved up significantly. I think it takes a little bit of time for it to come back. Please remember the last acquisition of eight malls was done only in March of FY21. So that's going to take a little bit of time. So that's really our perspective in terms of saying what is affordable. And our endeavor, obviously, would be to bring them in line with what is affordable at the tenant level.

Pratik Dantara: Just to add to what Dalip was saying, if you just see that there's enough headroom to kind of take rentals up, so as the consumption increases obviously rent to sales starts coming down and that gives you enough headroom to increase rentals and get that mark-to-market every time the lease comes up for renewal

Dalip Sehgal: I think, just to reiterate and I'm sure you're aware of this, about 10% of our rentals come up for renewal every year. So that is what you can influence. You cannot influence 100% of your tenant rents every year. So that's really what is important, that every time we re-lease and I think Nirzar spoke about this, we are getting consistently now 21% re-leasing spread. So, over a period of time, I think the point that you made is valid. I think it will come back to a normative level.

Mohit Agrawal: My second question is again on the business development bit. So, you said that the pipeline is healthy and in your initial remarks, you mentioned that you'd be targeting underinvested or under managed assets. So, any sort of cap rate or anything that you have in mind, just trying to understand that what kind of gain can the minority shareholders get? Also, if you can clarify if these acquisitions would be done, all the acquisitions will be done on the Nexus balance sheet directly or will it be routed through the sponsor?

Dalip Sehgal: Let me take it in two parts. I think the first part of the question in terms of what is out there which is undermanaged or underinvested in, there are about 100 A grade malls in this country. The top five owners/developers own 40-45 of them. So, there are 50-55 malls which are owned by people who have either one or two malls and clearly that is not their core business and that's really the segment that we look at in terms of saying that is where we can add value, both in terms of upgrading of assets, providing better management, cost effectiveness and using our size and scale and ability to bring in brands, good quality brands into those assets. So that's the first bit in terms of what is on the table in a sense from where we would be hopefully acquiring assets as we go forward. Part two of your question, let me ask Pratik to take that on.

Pratik Dantara: I think on the cap rate piece, we wouldn't want to kind of specifically comment on it. But I think we're looking at longer term accretive deals for our investors. That's how we look at it from an NAV and a DPU perspective. I think our acquisition strategy remains very kind of focused where we are kind of buying assets in specific markets, be it our existing markets or state capitals and then focusing on really value adding by kind of turning around under managed malls with a strong team that we have and we've done that in the past, we're pretty confident of turning around assets. So that's the basis of the lookout for us.

Dalip Sehgal: I think the over focus on cap rates is a little risky in the sense that when your model is an acquisition model, you also need to focus on what is it that you can do with it. Cap rate is what you buy at, but what's also equally important is that what are you going to do with the asset, where is the value addition, can you create value through asset upgrades, through better brands, etc. I think that's been our strategy which is that over a period of 2 to 3 years and in some cases even earlier, we are able to turn around the assets. For example, I quoted the south example where we have significantly increased our leasing occupancies and our operational occupancies and we are looking at 18% to 20% increase in NOI this year compared to as at acquisition. So that's really our value creation model. Does that answer your question?

Mohit Agrawal: It does. And the last bit is on whether you'll be acquiring it on your own balance sheet directly or through the sponsor?

Dalip Sehgal: Would primarily depend on, I think the way we look at as such is it accretive to the Nexus Select Trust balance sheet. If it is, then we would buy it on that balance sheet. We have, as you know, almost a billion dollars' worth of ability to add in terms of credit. So, we have a war chest which is large enough. The balance sheet is strong, the war chest is big and there's no reason why we cannot acquire on the Nexus Select Trust balance sheet.

Pratik Dantara: I think we'll do it on the Trust balance sheet just looking at the headroom that we have here. So, it should be the Trust balance sheet that we acquire.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP mutual Fund.

Vivek Ramakrishnan: You mentioned the $1 billion headroom that you have. In terms of keeping a strong credit profile and your AAA rating what would the peak is the first question? The earlier question was on the cap rate and from a market perspective, it becomes very important because that's where people measure it and I understand where you're coming from. But when you buy, would you say that investors should look at a 1-to-2-year timeframe for turnaround or would it be longer? Those are my two questions.

Dalip Sehgal: So, let me answer the second question first. Vivek, the answer is that yes, if you look at the south portfolio, I think despite COVID etc. the turnaround at least a large part of it happened in the first 12 to 18 months. That essentially is the kind of time frame that we look at. Beyond that, let's say in a 2 to 3 years perspective we would be able to optimize whatever you have acquired and take it to a level where it will then be at par with some of the assets that we have acquired earlier. In terms of LTV, I think let me ask Rajesh to answer this. Rajesh is our CFO.

Rajesh Deo: So, if you look at the financials, we have a net debt of around INR 3,500 crores, which converts to LTV of around 15%. So, if you again have a look at other REITs, which are at about 28% to 30%, that's around the range that we are planning to in terms of our LTV, 28% to 30%. So, between a 15% and 30%, we'll have around INR 3,500 crores of war chest like Mr. Sehgal mentioned and the REIT regulations allows you to go up to 49%. So, between 15% and 49%, we have ~$1 billion that Mr. Sehgal quoted.

Dalip Sehgal: So, I don't think we would finally go to 49%. I think, like Rajesh is saying, a fairly stable number would be high 20s and around 30%. So that's what you should look at. But potentially you could borrow up to a billion.

Rajesh Deo: And just to add, because REIT as an instrument when the developer’s kind of swap in, the transaction of transferring the assets to the REIT is tax free for them. So, most of the developers that we are interacting are wanting to swap their shares. So, we have a balance in terms of choosing whether we want to go the debt mode or we want to swap against units.

Dalip Sehgal: Or a combination of both, depending on how the deal gets structured.

Moderator: The next question is from the line of Sri Karthik from Investec.

Sri Karthik: If you provide us the mix of your rental between minimum guarantee and performance linked, I guess the earlier number was close to around 13% odd. How did that move during the quarter?

Dalip Sehgal: It's around 12% odd because what happens is that as you re-lease a large part of what is your revenue share gets subsumed into your minimum guarantee. So, with every renewal that happens, it gets subsumed. So, there will be a period where that 13% has now become 12% but will hopefully come back. Nirzar you want to add to that?

Nirzar Jain: I think it's in line like Mr. Sehgal was saying. I think we bumped up rents last year. We did strong line of releasing activity and we bumped up rentals by 21%. So, there's a lag effect for between 12 to 18 months while sales catch up and a high but it's stable in that zone.

Sri Karthik: I have two more. One is in terms of the market rentals and the potential mark to market upside. I guess the numbers across peers and yourself seems to be indicating in prime markets, the occupancy numbers are touching 98%-97%. What do you see as the rental trends at a market level in the prime market, of course, the top 4-5 places that you are present in? Secondly, if you could speak a bit about the occupancy levels and how do you see that moving in the Bangalore office space?

Nirzar Jain: Sri, I don't think we have any offices in Bangalore. In terms of your first question, in terms of rental trends in top markets of our key assets, like you rightly said we are more than 98%-99% in terms of lease up and a bunch of that leasing happened post COVID. So, we are fully leased up. What we are actually trying to do is now differentiate and choose the right brands to bring in which add more value to the mall and we hope to continue with the same rental momentum that we've displayed in the past. Further pushing the rents as well as the revenue shares going ahead.

Dalip Sehgal: I think both are important. One is of course pushing rentals. The other is that at the end of the day as a shopper, I'm sure you also realize it people go to a mall to find the right mix of brands. So, one of the key things as we go forward is to figure out that in each micro market in Bangalore, for example, we have three malls. All three have very different micro markets and how do we make sure that we have a brand mix which is appropriate and will bring in greater value both to the shopper and to us.

Sri Karthik: Sorry, I got confused a bit. I was referring to the Western office space.

Dalip Sehgal: Pune?

Sri Karthik: Yes.

Rajesh Deo: So, Pune the occupancy is 67% and this is ahead of our projections that we have made for FY24. There's an active pipeline and we should be able to update you in the next quarter in terms of the progress that we are making.

Dalip Sehgal: And just to put it in perspective, the office and hotel business both put together is around 9% of our NOI. It's a very small component of our total business.

Moderator: The next question is from the line of Shrish Vaze from Moneylife Advisory Services.

Shirish Vaze: My first question is regarding how do you see the supply situation in the key micro markets that we operate in over the next few years?

Dalip Sehgal: I spoke earlier about these A grade malls that is the segment that we look at, that's about 60-65 million square feet. What gets added to that stock every year, Shirish, is about anywhere between 3.5 to 4 million. If you look at FY24 as well, we have line of sight because anything that's going to open this year is already at a stage, where fit outs have started or construction has got completed etc. So, our understanding is that on the supply side it'll probably be around 3.5-4 million. On the demand side, clearly, if you look at the larger brands and companies, both international and Indian, we are looking at perhaps a demand side of about 10 to 12 million square feet at a conservative level.

Shirish Vaze: My second question is regarding two of our malls, so Nexus Fiza and Nexus Shantiniketan. Here I just wanted to understand that although we own 100% of the asset SPV, we own only part of the economic interest. So just wanted to understand why that was the case here?

Rajesh Deo: This was a joint development agreement where an X percentage is around 30%, belongs to the landowner and the economic interest that we have is only 70% around and is different for different malls. That's the reason.

Pratik Dantara: However, to answer your question, it is structured in that fashion when we acquired.

Shirish Vaze: So, do we have a ROFO on these assets?

Pratik Dantara: No, we don't have a ROFO.

Dalip Sehgal: So, these are what you inherit in the sense that these were JVs that formed at some point in time with the landowner and like Rajesh said, there's about 30% economic interest of the landowner.

Shirish Vaze: Last question is regarding one mall.

Pratik Dantara: Another point is we control those assets. Management control is with us.

Dalip Sehgal: For all assets, yes, the control is with the management.

Shirish Vaze: So just my third question is regarding one mall. So, Pavilion Mall in Pune, it is part of the platform but not of the REIT. Do you see this mall coming into the REIT anytime in the near future?

Dalip Sehgal: No, we don't see that and it's a technical reason. There is nothing else. I don't think there's a business reason. There is a land parcel on which the mall stands which has a convention center, a hotel and offices and all of that is a single land parcel and there can be no demarcation hence, that was kept out of, it's a small asset, but it's been kept out of the REIT. Its only technical reason, there is no other reason.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stock Broking.

Biplab Debbarma: I have just one question. So, consumption growth of 18% year-on-year that we saw and is the consumption growth ballpark uniform across assets?

Dalip Sehgal: No, it does tend to vary across malls and the reason for that is fairly simple, which is that each micro-market behaves a little differently from time to time. So, if you look at malls like Select, which is a marquee asset, one of the highest performing malls in the country, the growth has been (+27%) and it's a mall which has been there for some time. So, on average, it's 18%. There will be some malls in any portfolio which will perform lower than 18% and some which will perform above 18%.

Biplab Debbarma: So, what would be the consumption growth in your set of 5-6 asset ballpark?

Dalip Sehgal: The top five have all been in the ballpark of (+18%). So, it's some of the smaller malls where the growth has been a little less. Also depends on the city and so on and so forth, what has been the macroeconomic growth in that state, in that city. So, it depends also on that. Where is population growth happening, where are new people coming in, where are the settlements, where are new developers building new apartments etc. All that makes a big difference in terms of how a particular market would operate. But just to give you a sense and I think I alluded to this earlier as well, if you look at our key markets and we took three examples over here. If you take Mumbai and Bangalore, we have 1000 bps higher than the market in terms of consumption growth. In Pune, we are 400 basis points higher and in Chennai, we are 200 basis points higher than the market. So, the benchmark is both. There is a benchmark which is external, which is how is the market going and of course, there's a benchmark that you said, which is our internal benchmark that look, while the average is 18, some will grow higher some will grow lower. It's a combination of both and our benchmark typically tends to be…we should be ahead of the market growth.

Moderator: The next question is from the line of Ankit Patel from HSBC Mutual Fund.

Ankit Patel: In terms of our clarity, wanted to understand the revenue from operations about INR 525 crores and the consumption amount is about INR 2,900 crores. We passed through the COVID period where consumption would have declined significantly and from our understanding now we would have a variable upside in case this consumption next year jumps by a similar 18% or so. If it was like-for-like assuming no revisions would happen, on a percentage basis could you give us an idea what would be the upside potential simply because of higher consumption on your revenue and what is that based on because you would have a fixed and variable component on the rental?

Dalip Sehgal: Understood. I think that's a fair question. I think the first thing is that please remember this is the comparison of 18% is versus Q1 FY23 which was a normal quarter. If you remember, February of last year is when COVID came to an end and March was a normal month. It was also a quarter which had very high growth. So, the 18% growth that we are showing here was on the back of a very high growth quarter which was Quarter 1 last year. That's one. Number two, in terms of saying how much is fixed, how much is variable, roughly 87% is fixed and about 13% odd is variable which is the revenue linked upside that we get. So as long as the business is growing at this healthy rate, that component of revenue will continue to grow.

Pratik Dantara: And just to add, I think when we filed the offer document, we had mentioned that and we have predicted sales to grow at about 8.5%. I think the sensitivity we had done at that point of time suggested that a 5% movement in your sales gives a 1% movement in your NOI and consequently 10% movement gives a 2% delta in your NOI. So that's the sensitivity that we've disclosed in our offer document as well.

Dalip Sehgal: So, your basic premise saying that as long as consumption is growing, revenue would grow primarily because of the revenue share that we have, the linkage that we have to sales. I think this is absolutely valid.

Ankit Patel: The other part of the question actually, I was trying to link it up with COVID because wanted to understand what happens in a downside scenario in terms of your ability to, so the variable component would probably get hit significantly. But would there be an impact on your fixed and basically how did you manage that period where there were completely zero footfalls significant impact on that? So, variable would have got impacted but how did you go through that time in terms of your fixed part as well?

Dalip Sehgal: I think that's a fair question. Two things. One is that obviously during COVID malls were shut, so it would forget about having a variable component. Obviously, fixed rents also, meaning we would be not very sensible in asking tenants who have no business to be paying fixed rent. So, what we did, obviously, like most other people in the industry, was to give waivers. I think the one big difference that we did in terms of giving or deciding on waivers was to do it on a tenant-to-tenant basis, store-by-store, key account by key account, to understand where the pain point was. So, to take an extreme example, multiplexes were the first to be shut and the last to open, and hence required the maximum waiver as a category. And then within multiplexes, there were some which required more and some which required less, and so on and so forth. So, we did not have a carte blanche across the board saying we're giving 50% off or whatever. As a result of this, I think in FY22, we recovered about 67% of rentals. 67% is what we recovered. So, if that gives you a sense as to what would happen and I'm saying this is a black swan event, you cannot plan for it, but that was the worst-case scenario. And because we did it, I think in a little more, let's say, organized manner and easing pain wherever we could, we were able to recover almost 67% of our rentals even in a COVID year. Does that answer your question?

Ankit Patel: Yeah, Just one last thing was how would you compare it with the behavior of, say a commercial real estate portfolio where there are larger corporations while there would be work from home possibilities, but some part of the offices would still continue to be utilized. Whereas in retail thing it's such an event or anything event that happens in that locality or something can have a significant impact on footfalls. How do you compare the commercial portfolio to a retail portfolio?

Dalip Sehgal: So, I've understood your question. I think I'm not going to hazard a comparison. These are two very different markets and I must confess that I don't know enough for me to be able to comment on the commercial side. I can only comment on the mall and the retail side. I think I have explained to you that in a very bad year, we were able to recover 67%. Number two, starting from 1 April 2023, there have been no waivers in the business at all. And you see the NOI growth that's happening 18% this year on a very strong growth last year as well. So, I think the key really is that is there, recovery that happens after that event. And like I said, it's a black swan event. Nobody can prepare for it. All that you can do is to make sure that during those difficult days, you are also with your tenants. At the end of the day, our relationships are very, very strong. And one of the reasons why I think we do well and have continued to do well this quarter as well, is because of our very strong tenant relationships. And I think they also understood and we also understood that there was a bit of give and take that had to happen, and that's happened and all of it is over.

Moderator: The next question is from the line of Siddhesh from Tusk Investments.

Siddhesh: Sorry, if this is a repeat question. I joined in a bit late. Just wanted to know how the M&A pipeline is on acquisition of new assets. Any sense you can give of what are the kind of assets which are there in the immediate pipeline, what the conversion would be in terms of timelines and size of assets?

Dalip Sehgal: I think you missed out. This got discussed a little earlier. Let me just repeat. Number one, in terms of what is on the table, there are about 100 odd A grade malls, which is really what we look at for acquisition. That's about 60-65 million square feet. Out of these 100, 45 odd are owned by developers like us or operators like us. And there are another 50-55 malls that are owned by people whose core business is not malls. And they may be owning maybe one, maybe two, at best, three malls. And that really is our source of acquisition. So, in terms of what is available out there, I think it's about 30 odd million square feet and perhaps about 50-55 A grade malls. We don't look at B that's, again, a very large number, but typically those are strata sold, and not a great interest. In terms of fine-tuning markets, etc., how do we look at acquisition? Let me pass it on to Pratik

Pratik Dantara: I think the way we look at it and the playbook is this 50-60 A grade assets that are available in the country. So, our focus remains on our core markets or state capitals. We tend to acquire assets which are number one, number two in the market that they're operating. And at the same time, we want to kind of acquire assets where we are able to value add. We've done that in the past. We've turned around malls. We've got exceptional growth in the assets that we've acquired. So, value add is a big theme that we kind of look at or evaluate when we are actually acquiring assets. And lastly, I think on a longer-term basis all of these need to make financial sense and therefore creative, etc. So, I think these are the parameters that we use. We are in conversations with a few players, but we wouldn't be able to take names here.

Moderator: The next question is for the line of Dax Fernandes from Darashaw & Company Limited.

Dax Fernandes: I have a question on the gross debt. So, the gross debt here is INR 4,441 crores as given in the presentation and we have a net debt of INR 3,500 crores. So that would translate to cash of INR 940 crores. And it also says that this excludes the restricted cash. So, what would that figure be the encumbered cash here?

Rajesh Deo: So, we are saying INR 4,441 crores is my gross debt and what we said is net debt of INR 3,500 crores. So, that takes to INR 941 crores. Out of that INR 941 crores we have some restricted cash of around INR 400 crores. That is how the net debt has been computed.

Pratik Dantara: So, I think the buildup is, I've got cash and cash equivalent of about INR 1,300 crores and then you obviously adjust the restricted cash of about INR 370 crores from it, including the distribution. I mean that we wanted to kind of keep it aside and call that as restricted cash as well. So that gives you INR 3,500 crores of net debt.

Dax Fernandes: And over this period would this cash, which is not restricted, be distributed or we plan to maintain a minimum cash balance at SPV REIT level considering the guideline by SEBI, of course. So, what would the strategy be around that?

Rajesh Deo: So, the strategy is to maintain at least two months of working capital cash with us and upstream the balance as per the REIT regulations, at least 90% has to be distributed.

Pratik Dantara: But we intend to distribute 100%.

Dax Fernandes: My last question is do we have a guidance that we'll be providing for FY24 in our investor presentation? I don't think it was covered here, but in the September presentation.

Pratik Dantara: We've actually kind of given sort of qualitative guidance. If you see our investor deck on page no. 6 that's a summary thing. We basically are saying we are on track to achieve the FY24 number that we had disclosed in the FOD.

Dax Fernandes: But on a number in this term of INR per unit for FY24 will we be shelling out guidance for this financial year like some of the other public REITs InvIT they do, so on those lines.

Dalip Sehgal: I guess in our case, because this is the first year we've just given in a sense projection, not guidance, projections for FY24. I think that is the basis that you should look at. And as the performance and the results come in every quarter, you can update it accordingly.

Pratik Dantara: The FOD also has the NDCF guidance, so you can compute that in terms of what that DPU should be.

Moderator: The next question is a follow up question from the line of Siddhesh from Tusk Investments.

Siddhesh: I just want to jump in with one more. Are we seeing more consumption growth in the Tier-2 cities in our portfolio? We see Select Citywalk at 27%. But apart from that, largely, is it more in the Tier-2?

Dalip Sehgal: I think the good thing is that the India consumption growth story exists equally strongly in metros and mini metros. So, some of our strongest performing markets are even markets like Bhubaneswar, which honestly is a state capital, but still not even a mini metro. And then there are markets like Mysuru, there are markets like Pune which have done extremely well. So, I think the growth has been across, actually. So, it's not restricted to metros alone. And I explained to you, even in Mumbai, we are almost 1000 basis points higher than the market growth. So, yes, the markets have grown across. Clearly, they couldn't have grown at the same rate as FY23. I think that is very important for everybody to understand. That was a post-COVID period. And hence there would have been a base effect as well because the base last year was very-very high. But on that base, I think growing 18% like for like, I think is a reasonable set of numbers. Thank you so much.

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