

Retail Research	IPO Note
Sector: Consumption - RIET	Price Band (Rs): 95 - 100

Nexus Select Trust REIT

Company Overview:

Nexus Select Trust is India's leading consumption centre platform of high quality assets that serve as essential consumption infrastructure for India's growing middle class. The company has portfolio of 17 best in class A grade malls spread across 14 cities with a total leasable area of 9.8 mn square foot (9.2 mn square foot – adjusted for share of economic interest). Moreover, the company also operates a hotel with 354 keys and 3 office assets with 1.4 mn sq ft leasable area. During 9MFY23, the company has reported Total Income/EBITDA/PAT of Rs 1,498 cr/Rs 934 cr/Rs 257 cr.

Key Highlights:

Portfolio with grade A consumption centres platform: The company portfolio has a total 17 best-in-class grade A urban consumption centres (out of the total 100 grade A assets in India with 90% occupancy) with a total leasable area of 9.2 mn sq ft (adjusted for share of economic interest), 2 complementary hotel assets (354 keys) and 3 office assets (1.3 mn sq ft) as of December 31, 2022. The company in total has 9.8 million square foot area (96% occupancy) in their portfolio with 2,893 stores across pan India. FY20 footfall stands at 13+ cr with annual tenant sales of more than \$1 billion (11% FY18-FY20 CAGR). As of 3QFY23, total tenant sales stands at 128% of the pre-COVID business.

Strategically located with PAN India Presence: Assets are strategically located across 14 cities (i.e. Delhi, Navi Mumbai, Bengaluru, Pune, Hyderabad and Chennai) that comprises 30% of the India's total discretionary retail spending in FY20 and had an average population CAGR that was 226 bps higher than the national average from FY11 to FY21.

Stable cash flow with contracted escalations and tenant sales linked upside: The company's portfolio is highly stable with Committed Occupancy of 96.2% and 5.7-year WALE (Weighted Average Lease Expiry) as of December 31, 2022. The company is well-positioned for strong organic growth through a combination of 95%+ leases with minimum guarantee rentals and contracted escalations, 88% leases with turnover rent clause and cost pass through of 80%+ expenses recovered from tenants.

Well positioned for inorganic growth: Since, FY20, the company has increased the portfolio by 4.6 mn sq ft through strategic acquisition, leased 4.2 mn sq ft, added 408 new brands to the tenant base and achieved average re-leasing spreads of 19.2% on ~2.9 mn sq ft of re-leased space.

Issue Details	
Date of Opening	9 th May 23
Date of Closing	11 th May 23
Price Band (Rs)	95 – 100
Issue Size (Rs cr)	3,040 – 3,200
No. of shares (cr units)	32
Face Value (Rs)	-
Post Issue Market Cap (Rs cr)	14,392.5 – 15,150.0
BRLMS	SBI Capital Market, BofA Securities, Axis Capital, Citi Global, HSBC Securities, IIFL Securities, JM Financial, Kotak Mahindra Capital, Morgan Stanley India
Register	KFin Technology
Sponsor	Blackstone
Manager	Nexus Select Mall Management Private limited
Trustee	Axis Trustee Services Limited
Bid Lot	150 shares and in multiple thereof
Institutional Investors	Not more than 75% of the issue
Non – Institutional Investors	Not less than 25% of the issue

Objects of Issue	
	(Rs Cr.)
Partial or full repayment or prepayment and redemption of certain financial indebtedness of the Asset SPVs and the Investment Entity	250
Acquisition of stake and redemption of debt securities in certain Asset SPVs	1,050
General Purpose	-

(Source:RHP,SSL Research)

How will Unitholders of Nexus REIT benefit?

The company is expected to generate Net Distributable Cash Flow (NDCF) to the tune of Rs 1,212.4 cr, Rs 1313.4 cr and Rs 1,411.8 cr in FY24E, FY25E and FY26E respectively (*Source: DRHP; Page no 462*). As per the distribution policy (*Source: DRHP; Page no 483*), the manager shall declare and distribute at least 90% of the net distributable cash flow of the Nexus Select Trust as distributions (“REIT Distributions”) to the Unitholders.

Assuming 90% of the FY24E, FY25E and FY26E NDCF is distributed to the unitholders (*Kindly refer to the table below Projected Estimation*), then unitholders are likely to receive payout of Rs 7.2, Rs 7.8 and Rs 8.4 per share respectively. At upper price band of Rs 100, the yield is likely to be 7.2%, 7.8% and 8.4% in FY24E, FY25E and FY26E respectively.

Investors are recommended to treat Nexus REIT as a quasi-equity product, where, the unitholders will reap consistent cash flow in the form of dividend. In the long term, as the NDCF increases, dividend payout and hence dividend yield is likely to turns attractive. Hence, the stock price is likely to get adjusted (increase or decrease) similar to the prices of other fixed interest bearing instruments (for eg. Bonds or NCDs).

Projected NDCF

Particulars (Rs cr)	FY24	FY25	FY26
Projected Revenue from Operations	2146	2318.2	2492.4
Projected Net Operating Income (NOI)	1638.8	1782.4	1917.5
Projected EBITDA	1539.2	1673	1809.2
Projected Cash flow from Operating Activity	1479.8	1581	1693.4
Projected NDCF	1212.4	1313.3	1411.8

(Source: DRHP; Page no: 462)

Estimated Payout and Yield to the Unitholders

Particulars (Rs cr)	FY24	FY25	FY26
Projected NDCF	1,212.4	1,313.4	1,411.8
NDCF to be distributed to the Unitholders - Assuming 90% of NDCF	1,091.2	1,182.1	1,270.6
Total numbers of units (cr)	151.5	151.5	151.5
Likely Payout to the Unitholders (Rs/unit)	7.2	7.8	8.4
Payout Yield at Upper Price Band of Rs 100/unit	7.2%	7.8%	8.4%

Particulars (Rs cr)	FY24	FY25	FY26
Projected NDCF	1,212.4	1,313.4	1,411.8
NDCF to be distributed to the Unitholders - Assuming 100% of NDCF	1,212.4	1,313.4	1,411.8
Total numbers of units (cr)	151.5	151.5	151.5
Likely Payout to the Unitholders (Rs/unit)	8.0	8.7	9.3
Payout Yield at Upper Price Band of Rs 100/unit	8.0%	8.7%	9.3%

Kindly note:

(1) The payout can be in the form of dividend, interest and other income. For tax implications to unitholders, kindly refer to the table below “Tax provisions applicable to the unitholders of the Nexus Select Trust”

(2) We have not assumed impact of compounding, in case the payout is quarterly or half yearly

Risk factors

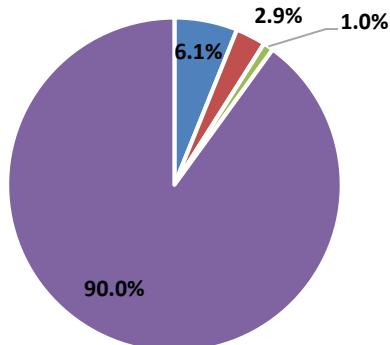
- The company do not provide any assurance or guarantee of any distributions to the Unitholders.
- The proposed holding structure of the portfolio may not be tax efficient.
- Revenues, results of operations, cash flows and financial condition may be adversely affected by low occupancy and rent levels of urban consumption centres, hotels and commercial office spaces, and by changes in accounting estimates.
- A decline in footfalls in urban consumption centres that has in the past, and may in the future, adversely affect the revenues, business, results of operations and cash flows of the company.
- A significant portion of the revenues are derived from a limited number of large tenants.
- Tenant leases across the portfolio are subject to the risk of non-renewal, non-replacement, default, early termination, regulatory or legal proceedings or changes in applicable laws or regulations, thereby impacting leasing and other income.
- The company have a history of net losses. May not be able to achieve profitability and can provide no assurance of future operating results.

Competitive Strength

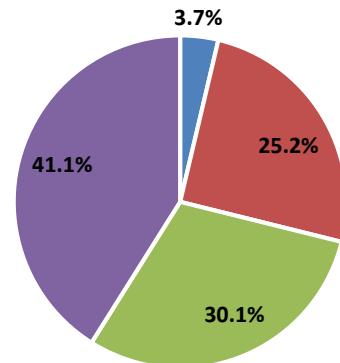
- Located in India, one of the world's fastest growing consumption-led major economies
- India's largest platform of best-in-class assets with a presence in 14 of India's key consumption cities
- Highly occupied by a diversified tenant base of renowned national and international brands
- Strong embedded growth with inflation hedged cash flows
- Strategically located in prime in-fill locations with high barriers to entry
- Fully integrated platform with a highly experienced management team
- Renowned Sponsor with global expertise and local knowledge

Market Value of the Nexus's Portfolio – Rs 235 bn – As of 31st Dec'22

Market Value by Asset Type



Market value by Geography



■ Offices ■ Hotels ■ Renewables ■ Urban Consumption Centres

■ East ■ South ■ West ■ North

(Source: RHP,SSL Research; Page no:149 & 150)

Top Ten Tenants by Gross Rentals – For the month Dec'22

Top Ten Tenants by Gross Rentals	No. of Stores in our Portfolio	Leasable Area (sf)	Gross Rentals (%)	WALE (Years)	Trade Categories
Lifestyle	8	4,42,663	2.80%	8.8	Departmental Store
Cinepolis	6	3,62,349	2.60%	17.8	Entertainment
PVR Cinemas	8	5,02,062	2.50%	7	Entertainment
Westside	9	2,85,317	2.10%	7	Apparel and Accessories
Zara	3	1,19,823	2.00%	7.5	Apparel and Accessories
Shoppers Stop	5	2,83,366	1.85%	15.1	Departmental Store
Max	14	2,30,747	1.75%	6.4	Apparel and Accessories
Smart Bazaar	6	3,10,030	1.60%	10.8	Hypermarket
Swedish Apparel Retailer Chain	8	2,29,120	1.60%	21.9	Apparel and Accessories
Reliance Trends	12	2,15,124	1.50%	5.1	Apparel and Accessories
Total/Average of Top ten tenants	79	29,80,600	20.20%	10.7	

(Source: RHP,SSL Research; Page no: 158)

Key Portfolio Information

Urban consumption Centres	
Leasable Area (msf)	9.2
Committed Occupancy (%) as of December 31,2022	96.2%
Number of stores	2,893
Market value sales (Rs Cr)	21,147
Percentage of Gross Portfolio Market (%)	90.0%
For FY2020	
Tenant sales (Rs Cr)	7,913.6
Tenant Sales Per Square Foot (Rs)	1,235.6
Tenant sales CAGR (FY18 to FY20)	11.0%
Rent-to-Sales Ratio (%)	12.5%
Shopper traffic (footfall, Cr)	13.3
For 9MFY23	
Tenant sales (Rs Cr)	7,813.7
Tenant Sales Per Square Foot (Rs)	1,554.7
Rent-to-Sales Ratio (%)	11.8%
Shopper traffic (footfall, Cr)	92.7
For FY21 and FY22:	
Tenant sales for FY21 / FY22 (Rs Cr)	3,725.7/6,041.5
Hotels	
Number of hotel keys	354
Market Value (Rs Cr)	679.0 Cr
Percentage of Gross Portfolio Market Value (%)	2.9%
Offices	
Leasable Area (msf)	1.3
Market Value (Rs Cr)	1,432.4
Percentage of Gross Portfolio Market Value (%)	6.1%
Renewable Power Plants	
Capacity	15 MW
Market Value (Rs Cr)	241.3
Percentage of Gross Portfolio Market Value (%)	1.0%

(Source:RHP,SSL Research; Page no: 179)

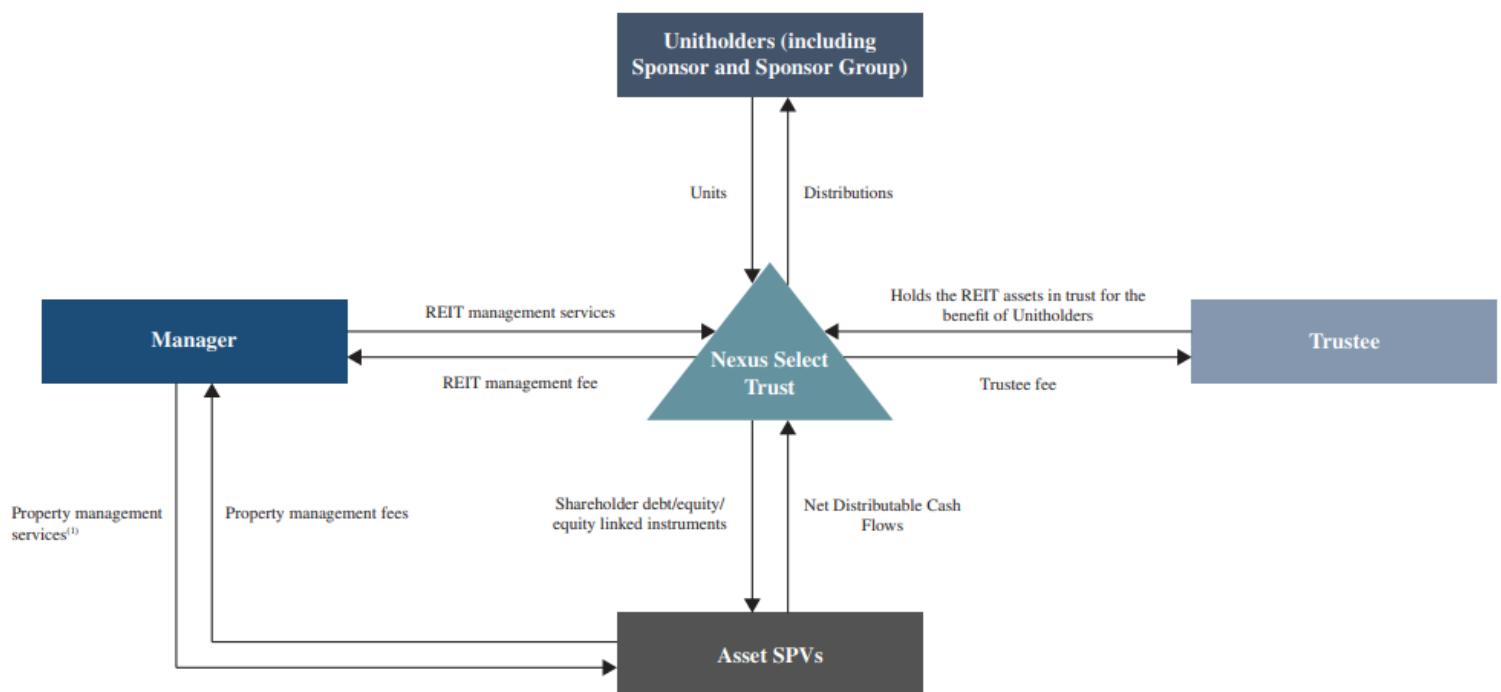
Property Wise Revenue from Operation

Asset SPV	Property Name & Location	Major Revenue Components	9MFY23		FY22		FY21		FY20	
			Revenue from Operation (Rs Cr)	% of Total	Revenue from Operation (Rs Cr)	% of Total	Revenue from Operation (Rs Cr)	% of Total	Revenue from Operation (Rs Cr)	% of Total
SIPL	Select Citywalk, Delhi	Revenue from leases and contracts with Customers	196.8	13.5%	198.4	15.1%	135.9	15.0%	249.4	15.4 %
CSJIPL	Nexus Elante Complex, Chandigarh	Revenue from leases, contracts with customers and hospitality business	323.9	22.1%	299.5	22.7%	200.4	22.1%	328.7	20.3 %
WRPL	Nexus Seawoods, Navi Mumbai	Revenue from leases and contracts with customers	145.9	10.0%	131.3	10.0%	100.5	11.1%	168.0	10.4 %
EDPL	Nexus Ahmedabad One, Ahmedabad	Revenue from leases and contracts with Customers	112.5	7.7%	103.2	7.8%	64.8	7.2%	101.6	6.3%
NHRPL	Nexus Hyderabad, Hyderabad	Revenue from leases and contracts with Customers	102.6	7.0%	98.9	7.5%	59.7	6.6%	117.4	7.2%
NHRPL	Nexus Koramangala, Bengaluru	Revenue from leases and contracts with Customers	48.0	3.3%	36.1	2.7%	19.7	2.2%	52.5	3.2%
VPPL	Nexus Vijaya Complex, Chennai	Revenue from leases and contracts with customers	93.4	6.4%	84.4	6.4%	52.9	5.8%	117.7	7.3%
CCPL	Nexus Westend Complex, Pune	Revenue from leases and contracts with customers	73.7	5.0%	48.2	3.7%	34.6	3.8%	69.1	4.3%
SRPL	Nexus Esplanade, Bhubaneswar	Revenue from leases and contracts with customers	75.1	5.1%	60.3	4.6%	37.5	4.1%	74.4	4.6%
EDPL	Nexus Amritsar, Amritsar	Revenue from leases and contracts with customers	46.0	3.2%	39.7	3.0%	30.0	3.3%	48.5	3.0%
NSRPL	Nexus Shantiniketan Bengaluru	Revenue from leases and contracts with customers	47.6	3.3%	35.4	2.7%	24.3	2.7%	54.9	3.4%
NWPL	Nexus Whitefield Complex, Bengaluru	Revenue from leases, contracts with customers and hospitality business	50.8	3.5%	33.5	2.5%	23.5	2.6%	61.6	3.8%
NURPL	Nexus Celebration, Udaipur	Revenue from leases and contracts with customers	26.8	1.8%	22.6	1.7%	16.7	1.8%	29.8	1.8%
NMRPL	Fiza by Nexus, Mangaluru	Revenue from leases and contracts with customers	27.8	1.9%	25.8	2.0%	19.0	2.1%	30.5	1.9%
NMRPL	Nexus Centre City, Mysuru	Revenue from leases and contracts with customers	23.2	1.6%	19.2	1.5%	13.1	1.4%	22.2	1.4%
NMMCPL	Nexus Indore Central, Indore	Revenue from leases and contracts with customers	16.6	1.1%	13.3	1.0%	9.4	1.0%	20.0	1.2%
NSMMPPL	Bengaluru	Revenue from contracts with customers	25.4	1.7%	23.4	1.8%	23.0	2.5%	33.6	2.1%
FPEL	Maharashtra	Revenue from generation of renewable energy	1.5	0.1%	3.4	0.3%	-	-	-	-

Asset SPV	Property Name & Location	Major Revenue Components	9MFY23		FY22		FY21		FY20	
			Revenue from Operation (Rs Cr)	%	Revenue from Operation (₹ Cr)	%	Revenue from Operation (Rs Cr)	%	Revenue from Operation (Rs Cr)	%
MSPL	Karnataka Solar Park, Karnataka	Revenue from generation of renewable energy	17.7	1.2%	26.1	2.0%	23.5	2.6%	24.7	1.5%
DIPL	Nexus Westend Complex, Pune	Revenue from leases and contracts with customers including generation of renewable energy	36.3	2.5%	60.6	4.6%	44.7	4.9%	47.8	3.0%
Consolidation adjustments and Intercompany Eliminations			-28.4	(1.94)%	-44.9	(3.41)%	-26.2	(2.89)%	-30.3	(1.87)%
Revenue from Operations			1463.2	100.0%	1318.2	100.0%	907.0	100.0%	1622.0	100.0%

(Source :RHP,SSL Research; Page no: 413 & 414)

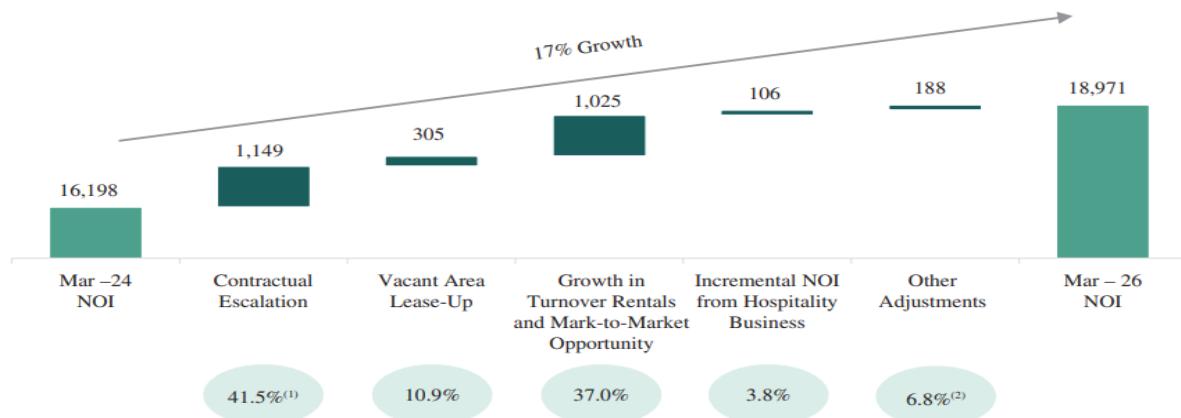
Relationship between the Nexus Select Trust, the Trustee, the Manager and the Unitholders



(Source:RHP,SSL Research; Page no: 75)

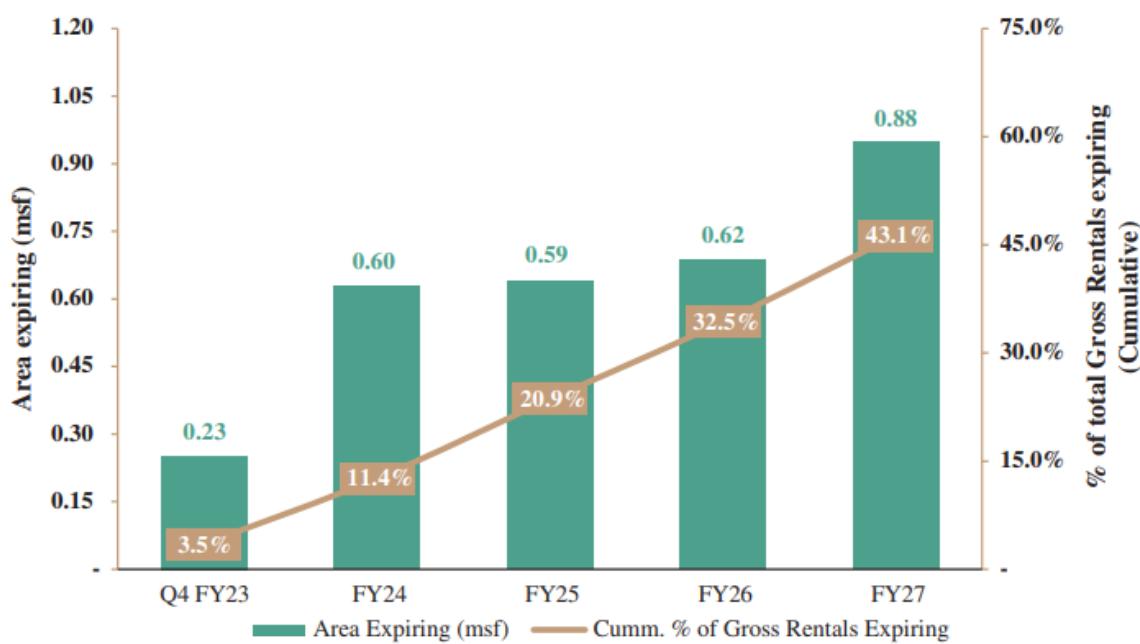
Key NOI Growth Drivers – FY24-FY26

The company believe portfolio is well-positioned for strong organic growth through a combination of contractual rent escalations, increased tenant sales leading to higher Turnover Rentals, Re-Leasing at higher market rents (the company estimate that market rents for properties are on average 16.1% higher than In-place Rents as of December 31, 2022) and lease-up of vacant area. Over the Projections Period, 89.4% of the projected increase in NOI is expected to result from contractual rent escalations, lease-up of vacant area, growth in Turnover Rentals and re-leasing at market rents, as illustrated below:



(Source:RHP,SSL Research; Page no: 173)

Occupied Area and Gross Rentals Expiring Across the Portfolio (Q4FY23 – FY27)



	Q4FY23	FY24	FY25	FY26	FY27
Gross Rental Expiring	3.5%	7.9%	9.5%	11.6%	10.6%
Effective Rents at Expiration (Rs per sq ft/month)*	153	140	175	213	160
Mark-to-Market Opportunity	22.2%	20.9%	21.0%	20.8%	20.3%

(Source :RHP,SSL Research; Page no: 174)

Tax provisions applicable to the unitholders of the Nexus Select Trust

- **Income arising from Nexus Select Trust**

As per provisions section 115UA(1) of the ITA, income distributed by Nexus Select Trust in the nature of interest, dividend and rental income directly received by REIT is taxable in the hands of the unitholders in the same manner and proportion as the underlying income stream received by the Nexus Select Trust

Residential status	Nature of income	Tax rates
Resident unitholders	Interest income	At applicable rates [^]
	Rental income	At applicable rates [^]
	Qualified dividend income	Tax exempt (Refer Note below)
	Disqualified dividend income	At applicable rates [^] (Refer Note below).
	Any other income taxable in the hands of Nexus Select Trust	Tax exempt
	Any distributions other than the above (specified sum as per section 56(2)(xii) of the ITA)	Taxable once such distributions exceed the issue price of unit#
Non-resident unitholders	Interest income	5%* [^]
	Rental income	At applicable rates [^] @
	Qualified dividend income	Tax exempt (Refer Note below)
	Disqualified dividend income	At applicable rates [^] @
	Other income taxable in the hands of Nexus Select Trust	Tax exempt
	Any distributions other than the above (specified sum as per section 56(2)(xii) of the ITA)	Taxable once such distributions exceed the issue price of unit#

(Source:RHP,SSL Research; Page no: 641)

* excluding applicable surcharge and cess; ^ The income shall be subject to deduction of tax at source; # any amount distributed by them to a unitholder which is not in the nature of dividends or interest or any other income shall be reduced from the cost of acquisition of such unitholder, till such time that the aggregate of such distributions do not exceed the original issue price of the units. Distributions in excess of the original issue price of the units shall be taxed in the hands of the unitholder at applicable tax rate per the newly inserted section 56(2)(xii) per the Finance Act, 2023, – As per section 56(2)(xii) of the ITA, Specified sum received by a unitholder from a Business Trust shall be charged to tax as:

Under the provisions of section 90(2) of the ITA, non-resident unitholders may seek to avail beneficial provisions under the applicable Double Taxation Avoidance Agreement ('DTAA') that India may have entered into with their respective country of residence

Note: As per section 10(23FD) of ITA, taxability of income in the nature of dividend distributed by Nexus Select Trust to unitholders is dependent on the taxation regime adopted by the SPV(s), which distributes the dividend to Nexus Select Trust. If the SPV(s) has not opted for a concessional corporate tax rate under section 115BAA of the ITA ('Qualifying SPV'), dividend received from such Qualifying SPV ('Qualified Dividend') and distributed by Nexus Select Trust is exempt in the hands of the unitholders. Any dividend other than Qualified Dividend distributed by Nexus Select Trust ('Disqualified Dividend') is taxable in the hands of the unitholders.

- **For resident, non-resident and Foreign Portfolio Investors ('FPIs')/Foreign Institutional Investors ('FIIs') unit holders**

In case of Nexus Select Trust units held as a capital asset by the unitholder, gains arising on sale of units of Nexus Select Trust on a recognised stock exchange, which have been subjected to STT, shall be liable to tax as under

Period of holding	Nature of capital gains	Applicable tax rates
More than 36 months	LTCG	10%* [^] on gains exceeding Rs.0.1 million
Less than or equal to 36 months	STCG	15%#

(Source:RHP,SSL Research; Page no: 642)

[^] without indexation benefit; * excluding applicable surcharge and cess under section 112A of the ITA, # excluding applicable surcharge and cess under section 111A of the ITA

Note: Gains arising on sale of units of Nexus Select Trust, where sale is not pursued through a recognised stock exchange and not subject to STT, shall be chargeable to tax as:

- at 20% (with indexation benefit for residents), plus applicable surcharge and cess in case of LTCG

- at applicable tax rate, plus applicable surcharge and cess in case of STCG.

For calculating gains cost of acquisition of units to stand reduced to the extent of distributions received which is not in the nature of:

- interest or dividend from SPV covered by section 10(23FC) of the ITA • rental income covered under section 10(23FCA) of the ITA
- sum not chargeable to tax for the unit holders under newly introduced 56(2)(xii) of the ITA • sum not chargeable to tax for the business trust under section 115UA(2) of the ITA

§ Under the provisions of section 90(2) of the ITA, a non-resident will be governed by the provisions of the Double Tax Avoidance Agreement (DTAA) between India and the country of tax residence of the non-resident, and the provisions of the Act apply to the extent they are more beneficial to the assessee.

Withholding Tax Provisions

Applicable withholding tax implications on income distributions to Nexus Select Trust and its unitholders are set out below:

- **On income distributions made to Nexus Select Trust by SPVs**

As per the provisions of section 194I of ITA, any rent received/receivable by Nexus Select Trust (in terms of section 10(23FCA) of the ITA) in respect of any real estate asset is not subject to withholding tax. As per section 194A(3)(xi) of the ITA, any income by way of interest (other than 'interest on securities') received/receivable by Nexus Select Trust from SPV is not subject to withholding tax. As per section 193 of the Act any income by way of interest on securities received/receivable by Nexus Select Trust from SPV is not subject to withholding tax. Any dividends received by Nexus Select Trust is not subject to withholding tax as per section 194 of the ITA.

- **On income distributions by Nexus Select Trust to unitholders**

As per section 194LBA of the ITA, taxes shall be required to be deducted at source at the time of payment/credit (whichever is earlier) from following income distributions by Nexus Select Trust to its unitholders:

Income recipient	Nature of Income	Applicable tax rates
Resident unitholders	Interest income	10%
	Rental income	10%
	Disqualified dividend income	10%
	Qualified dividend income	Not subject to withholding tax
	Any distributions other than the above	Not subject to withholding tax
Non-resident unitholders	Interest income	5%*
	Rental income	At tax rates in force#
	Disqualified dividend income~	10%*
	Qualified dividend income	Not subject to withholding tax
	Any distributions other than the above	Not subject to withholding tax
Category I and II Alternative Investment Funds	Any distribution of the nature referred to in section 10(23FBA) of the ITA	Not subject to withholding tax
Mutual funds	Any distribution	

(Source:RHP,SSL Research; Page no: 644)

~ If the ITA provides withholding tax rate for any specific category of non-resident unitholders, then the same needs to be considered.

Non-resident unitholders may seek to avail any beneficial provisions under applicable DTAA that India may have entered into with its country of residence.

- **On sale of units of Nexus Select Trust**

No withholding tax applies in respect of capital gains arising from transfer of units by a Foreign Portfolio Investor registered with the Securities and Exchange Board of India

Peer Comparison

- The Nexus Select Trust does not have any industry peers as on date of this Offer Document as there are no listed real estate investment trusts in the retail sector in India
- We believe investor can compare the Nexus Select Trust with other listed REIT like Embassy Office Parks REIT and Mindspace Business Parks REIT.
- Details of the same are captured below:

Embassy Office Parks REIT (Mcap: Rs 29,859 cr)	Unit	FY22	FY23
Revenue from Operations	Rs cr	1757.7	2068.5
Net Operating Income (NOI)	Rs cr	1494.0	1710.1
NOI Margin	%	85%	83%
Distribution	Rs/Unit	18.1	19.1
CMP	Rs	315	315
Yield	%	5.7%	6.1%

Mindspace Business Parks REIT (Mcap: Rs 19,391 cr)	Unit	FY22	FY23
Revenue from Operations	Rs cr	2962.6	3419.5
Net Operating Income (NOI)	Rs cr	2491.1	2766.3
NOI Margin	%	84%	81%
Distribution	Rs/Unit	21.8	21.7
CMP	Rs	327	327
Yield	%	6.7%	6.6%

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485

SEBI Registration No.: Stock Broker: INZ000200032 | DP Registration No.: IN-DP-314-2017 | Research Analyst : INH000000602
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The Analysts engaged in preparation of this Report:-

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Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
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