ICRA

COMMERCIAL REAL ESTATE - RETAIL MALLS

Rental income of retail malls surpassed pre-Covid levels in H2 FY2022; expected to increase by 30% YoY in FY2023

JUNE 2022

Highlights

ICRA

Rental income surpassed pre-Covid levels in H2 FY2022. In FY2022, the income reached 80% of the pre-Covid levels. In FY2023, the rental income is expected to increase by around 30% and is likely to surpass FY2020 levels by around 4-6% with no expected waivers and supported by contractual escalations in rentals.

The recovery in the operational metrics of retail malls has been sharper since August 2021 (ie, post the second wave of Covid-19) and the trajectory largely sustained in H2 FY2022, barring the limited impact due to Omicron. The recovery was driven by pent-up demand, high vaccination coverage and resumption of multiplexes which also coincided with the festive season. In Q3 FY2022, the retail trading values reached the pre-Covid levels and in Q4 FY2022, surpassed the pre-Covid trading values. In FY2022, the trading values in ICRA's sample set of retail malls reached 74% of pre-Covid levels and are expected to surpass pre-Covid levels in FY2023.

The improvement in rental income has been faster post the second wave with recovery at 74% in Q2 FY2022 (against 34% in Q2 FY2021) and reaching 102% of pre-Covid levels in Q3-Q4 FY2022. In FY2022, the rental income in ICRA's sample set increased by around 56%, reaching around 80% of pre Covid levels. During the first and the second wave of Covid, waivers and discounts were given on rent. However, this has largely not been the case during the third wave, except certain categories like multiplexes. In FY2023, the rental income is expected to rise by around 30% and is likely to surpass FY2020 levels by 4-6% on the assumption that there will be no significant disruptions on account of the pandemic.

The addition of new retail space was around 17 million sq feet (msft) in FY2021 and FY2022 for the aggregate of eleven cities. However, the incremental space absorption was only around 5.5 msft during this period, resulting in a significant increase in vacancy levels to 26% in FY2022 from 20% in FY2020. The absorption of space was adversely impacted by the pandemic, when footfalls and trading values significantly declined, especially during the first and second wave of the pandemic.

The debt-to-OPBDITA ratio is expected to ease to 6x-8x in FY2023 from the elevated levels of 8x-10x in FY2022, with an expected improvement in OPBDITA as various operating metrics improve to the pre-pandemic levels. The debt service coverage ratio, which was less than 1x in FY2021-FY2022, is expected to improve to 1.10-1.20x in FY2023 with the improved rental recoveries.

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Thank You!