

# COMMERCIAL REAL ESTATE - RETAIL MALLS

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**Rental income to increase by 8-10%  
YoY in FY2024 for mall operators**

**June 2023**



*The rental income of malls is expected to increase by 8-10% YoY in FY2024.*

*ICRA expects the credit profile of the mall operators to remain stable driven by healthy NOI, moderate leverage and healthy debt coverage metrics.*



Across the top six cities in India, the incremental supply stood at ~7 msf against net absorption of ~4 msf resulting in increase in vacancy levels to 19% in FY2023 from 16-17% in FY2021-FY2022. Despite expected healthy leasing, new supply of 9-10 msf is likely to see vacancy levels staying range bound between 18-19% in FY2024. Delhi NCR and Chennai will account for around 60% of the FY2024 new supply.



Trading values for ICRA's sample reached 125-127% of pre-Covid level in Q4 FY2023 and 117-119% in FY2023 driven by increase in consumption of premium and luxury products. In FY2024, trading values are expected to improve by 4-5% with healthy sales across the product categories like jewellery, electronics, apparels and increase in spends toward food, beverages and entertainment segments.



Rental income for ICRA's sample set witnessed strong growth of 78% YoY in FY2023 (on a lower base of FY2022) and is higher by 25-27% compared to pre-Covid levels, driven by increase in occupancy levels and higher revenue share rent backed by increase in retail trading values across cities. ICRA estimates the rental income of malls to increase by 8-10% YoY in FY2024 backed by contractual rental escalations and improvement in trading values.



The leverage ratio for the malls, measured by debt-to-NOI<sup>^</sup>, is likely to ease to 5-5.5x as on March 31, 2024, from 5.5-6.0x as on March 31, 2023, with expected improvement in NOI. Consequently, the debt service coverage ratio (DSCR), which was around 1.3x-1.35x in FY2023, is projected to improve moderately to 1.35x-1.4x in FY2024.

*Note: ICRA's sample includes 38 malls totalling 25.4 million sqft across 12 states. Cities include Delhi-NCR excluding Gurugram, Mumbai MMR, Bangalore, Hyderabad, Chennai and Pune*

*<sup>^</sup>Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property*

## 1 ICRA's outlook on Retail Malls



## 2 Trends in supply, vacancy and rentals



## 3 Performance of ICRA's sample set



## 4 Rating action on Retail Malls





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