

Rating Rationale

August 18, 2020 | Mumbai

Mindspace Business Parks REIT (Mindspace REIT)

'CCR AAA/Stable' Converted from Provisional Rating to Final Rating

Rating Action

Corporate Credit Rating	CCR AAA/Stable (Converted from Provisional Rating to Final Rating)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has converted the provisional rating assigned to Mindspace Business Parks REIT (Mindspace REIT) to a final rating of '**CCR AAA/Stable**'. CRISIL has received final documents, which are in line with transaction terms at the time of assignment of the provisional rating on June 26, 2020. Hence, CRISIL has converted the provisional rating to a final rating.

Mindspace REIT is sponsored by the K Raheja Corp group. The real estate investment trust (REIT) has acquired stake in eight special purpose vehicles (asset SPVs) comprising of 10 commercial offices, information technology (IT) parks and special economic zone (SEZ) assets. The REIT shall also house a facility management division in one of its asset SPVs.

The rating continues to reflect Mindspace REIT's comfortable loan-to-value (LTV) ratio, characterised by low debt and significant deleveraging of the underlying asset SPVs, strong debt protection metrics and stable revenue profile of the assets, given the high occupancy levels and benefits from geographic diversification. The strengths are partially offset by susceptibility to volatility in the real estate sector, resulting in fluctuations in rental rates and occupancy.

CRISIL has also considered measures taken by the central and state governments to contain the spread of the Covid-19 pandemic. Subdued economic activity or extended periods of work-from-home adopted by certain corporates may lead to build up of vacancy in the near term. Furthermore, planned construction activity was impacted during the lockdown phase, which may lead to delay in project completion. CRISIL will continue to monitor events around the pandemic.

Analytical Approach

For arriving at the rating, CRISIL has combined the business and financial risk profiles of Mindspace REIT with those of its asset SPVs. This is because Mindspace REIT has direct control over the asset SPVs, and will support them in the event of any exigency. Additionally, as per Real Estate Investment Trust Regulations, 2014, of Securities and Exchange Board of India (SEBI), Mindspace REIT and its asset SPVs have to mandatorily distribute 90% of their net distributable cash flow. Also, the cap on borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the aggregate value of Mindspace REIT's assets).

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Comfortable LTV ratio, supporting ability to refinance:** Consolidated debt was Rs 7,375 crore as on March 31, 2020. Majority of the proceeds from recalled inter-corporate deposits and primary proceeds raised through listing of Mindspace REIT were utilised to repay part of the external debt. Consequently, Mindspace REIT's consolidated debt was Rs 3,324 crore as on August 10, 2020, resulting in a comfortable LTV ratio of 14-18% as per its current valuation. Low LTV ratio protects investors from the risk of decline in property prices and its consequent impact on refinancing.

* **Strong debt protection metrics:** Residual debt at the asset SPVs will be amortised and run down over the next 10-12 years. However, incremental debt will be drawn down for repayments, construction, working capital requirement and other corporate purposes. Average consolidated interest service coverage ratio (ISCR) should be comfortable over 2.0 times, including for all incremental financing in the underlying asset SPVs. This is because incremental debt raised, over and above residual debt in the asset SPVs, is unlikely to result in LTV ratio exceeding 40% and gross total debt-to-EBITDA ratio exceeding 4.5 times.

* **Stable revenue of asset SPVs proposed to be part of REIT:** Mindspace REIT's entire revenue comes from 10 commercial offices, IT parks and SEZs. Consolidated revenue from the portfolio was Rs 1,757 crore for fiscal 2020. The portfolio assets have robust occupancy, over 90% on average, healthy track record of rental collection, high mark-to-market potential for rentals, given the superior asset and service quality, favourable location in prime areas of Hyderabad, Mumbai, Pune and Chennai, good demand in respective markets and competitive rental rates.

Weakness:

* **Susceptibility to volatility in the real estate sector:** Rental collection remains susceptible to economic downturns, which may constrain the tenant's business risk profile, and therefore, limit occupancy and rental rates. Tenant and sectoral concentration at 41.6% and 44.4%, respectively, as on March 31, 2020, of gross contracted rentals exposes the REIT to moderate concentration risk. Furthermore, 24.6% of the gross contracted rentals will be due for renewal between fiscals 2021 and 2023. While majority of the tenants are established corporates and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time frame. This could adversely impact cash flow, and hence, will be a key rating sensitivity factor.

Liquidity Superior

Liquidity is strong, supported by healthy average consolidated ISCR of over 2.0 times, including for permitted additional financing. Furthermore, a low LTV ratio adds to the REIT's financial flexibility. Consolidated debt is unlikely to cause LTV ratio to exceed 40%, thus protecting investors from any decline in property prices and the consequent impact on refinancing.

Outlook: Stable

CRISIL believes Mindspace REIT will continue to benefit from the quality of its underlying assets over the medium term.

Rating Sensitivity Factors

Downward Factors

- * Reduction in value of underlying assets, leading to LTV ratio of over 40%
- * Higher-than-expected incremental borrowing
- * Increase in overall vacancy by over 5% for completed assets of 230 lakh sq. ft, of which 212 lakh sq. ft is leased (occupied and committed) as on March 31, 2020
- * Significant delay in completion and leasing of under construction assets.

About the Trust

Mindspace REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's Real Estate Investment Trust Regulations, 2014, as amended. Mindspace REIT's portfolio assets are held through the following asset SPVs:

K Raheja IT Park (Hyderabad) Ltd (KRIT), Sundew Properties Ltd (Sundew) and Intime Properties Ltd (Intime) own and operate a SEZ/IT park, Mindspace, in Madhapur, Hyderabad. The property has been operational since 2005 and has a total completed area of approximately (approx.) 99 lakh sq. ft, of which 97.6% was occupied as on March 31, 2020, while an additional area of approx. 6 lakh sq. ft is expected to be developed over the medium term.

Avacado Properties and Trading (India) Pvt. Ltd (Avacado) owns and operates:

- a. An IT park, Mindspace, in Malad, Mumbai. The property has been operational since 2004 and has a total leasable area of approx. 7 lakh sq. ft, of which 93.8% was occupied as on March 31, 2020.
- b. A commercial office, The Square, in Bandra Kurla Complex, Mumbai, with a total leasable area of approx. 1 lakh sq. ft. The property was acquired by the group in August 2019 and is currently not leased.

Mindspace Business Parks Pvt. Ltd (MBPPL) owns and operates:

- a. A SEZ, Mindspace, in Airoli (East), Mumbai. The property has been operational since 2007 and has a total completed leasable area of approx. 47 lakh sq. ft, of which 98.0% was occupied as of March 31, 2020, while an additional area of approx. 21 lakh sq. ft is expected to be gradually developed over the medium to long term.
- b. An IT park, Commerzone, in Yerwada, Pune. The property has been operational since 2010 and has a total leasable area of approx. 17 lakh sq. ft, of which 99.9% was occupied as on March 31, 2020.
- c. An IT park/commercial office, The Square, in Nagar Road, Pune. The property has been operational since 2015 and has a total leasable area of approx. 7 lakh sq. ft, which was fully occupied as on March 31, 2020.
- d. A SEZ, Mindspace, in Pocharam, Hyderabad. The property has been operational since 2012 and has a total completed leasable area of approx. 4 lakh sq. ft, of which 92.4% was occupied as on March 31, 2020.

Gigaplex Estate Pvt. Ltd (Gigaplex) owns and operates a SEZ/IT park, Mindspace, in Airoli (West) (Mumbai). The property has been operational since 2013 and has a total completed leasable area of approx. 35 lakh sq. ft, of which 72.3% was occupied as on March 31, 2020, while an additional area of approx. 10 lakh sq. ft is under construction and expected to be completed in the next 12 months.

KRC Infrastructure and Projects Pvt. Ltd (KRC Infra):

- a. Owns and operates a SEZ/IT park, Gera Commerzone, in Kharadi, Pune. The property was completed in fiscal 2020, and has completed leasable area of approx. 13 lakh sq. ft, of which 71.3% was occupied as on March 31, 2020. Another approx. 13 lakh sq. ft of area is under development or proposed to be developed over the medium term.
- b. The facility management arm, proposed to be housed under this entity, shall provide services for each asset under the REIT. Services will include housekeeping, management of equipment, facade cleaning, security expenses, repair and maintenance and maintenance of common areas, etc.

Horizonview Properties Pvt. Ltd (Horizonview) owns an IT park, Commerzone, in Porur, Chennai. The completed area is approx. 8 lakh sq. ft and completion certificate has been received in June 2020.

Key Financial Indicators*

Particulars	Unit	2020	2019
Revenue from operations	Rs.Crore	1,757	1,422
Profit After Tax (PAT)	Rs.Crore	514	515
PAT Margin	%	29.3	36.2
Adjusted gearing	Times	3.22	3.29
Interest coverage	Times	2.67	2.83

*CRISIL adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure - List of Entities Consolidated with Mindspace REIT

Entity consolidated	Extent of consolidation	Rationale for consolidation
KRIT	Full	89% subsidiary
Sundew	Full	89% subsidiary
Intime	Full	89% subsidiary
Avacado	Full	100% subsidiary
MBPPL	Full	100% subsidiary
Gigaplex	Full	100% subsidiary
KRC Infra	Full	100% subsidiary
Horizonview	Full	100% subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
--	CCR	0.00	CCR AAA/Stable	26-06-20	Provisional CCR AAA/Stable		--		--		--	--

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties](#)

[CRISILs rating criteria for REITs and InVITs](#)

[CRISILs Criteria for Consolidation](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Sachin Gupta Senior Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3023 Sachin.Gupta@crisil.com</p> <p>Sushmita Majumdar Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3162 Sushmita.Majumdar@crisil.com</p> <p>Saina Kathawala Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 3342 3325 saina.kathawala@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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