

August 28, 2020

## Mindspace Business Parks REIT: Provisional [ICRA]AAA (Stable) confirmed as final

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); Confirmed as final
<b>Total</b>	-	-	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has confirmed the provisional rating of [ICRA]AAA (Stable) assigned to the issuer rating of Mindspace Business Parks REIT (Mindspace REIT/ the REIT) as the final executed transaction documents are in line with the initial rating terms and conditions mentioned in the REIT offer agreement.

The rating continues to favourably factors in the large and diversified portfolio of assets housed under Mindspace REIT. The initial asset portfolio of the REIT has office space measuring 29.5 million square feet (mn sqft) of leasable area, which includes completed area of 23.0 mn sqft, under construction area of 2.8 mn sqft and 3.6 mn sqft of planned area for future development. The completed area enjoys healthy committed occupancy (~92% as on March 31, 2020). The portfolio assets are diversified across geographies such as Mumbai Region, Pune, Hyderabad and Chennai and have a diversified tenant mix comprising of leading multi-national and Indian corporates, wherein the top-10 tenants contribute ~41% to the gross rentals. Competitive rental rates augur well for the credit profile of the Mindspace REIT, evident from the healthy occupancy track record of the portfolio assets. The rating also considers the proven track record and the experienced management of the REIT sponsor K Raheja Corp Group (KRC), as well as the REIT manager K Raheja Corp Investment Managers LLP (KRCIML).

The rating draws comfort from the sizeable reduction in external borrowings at the consolidated level. The consolidated borrowing has reduced from Rs. 7,382 crore as of March 31, 2020 to Rs. 3,324 crore post the REIT listing as of August 10, 2020. The REIT SPVs have reduced the borrowings by using inflows from the KRC group companies (towards repayments of inter-corporate deposits) as well as from the primary issuance. Thus, the initial portfolio has a low leverage - the estimated loan to asset value (LTV) is 14.0% post listing. Low leverage will provide financial flexibility to Mindspace REIT to fund future organic as well as inorganic growth. The residual debt is at the level of SPVs and primarily in the form of lease rental discounting (LRD) loans, which are amortising in nature, negating any refinancing risk in the near to medium term. ICRA expects the incremental capex to be funded by additional borrowings.

ICRA believes that Mindspace REIT's credit profile will be supported by the REIT regulations that restrict the extent of under construction assets in the portfolio to less than 20% of the asset value and the leverage to less than 49% of the asset value.

The rating also considers the impact of future acquisitions that may be undertaken by Mindspace REIT on the leverage metrics. The initial leverage is low at 14.0%; however, planned capex and aggressive acquisition plans can increase the leverage and reduce the financial flexibility. ICRA will continue to monitor the future asset acquisitions and their consequent impact on the leverage.

ICRA notes that the commercial office leasing segment had minimal impact of the Covid-19 pandemic and the subsequent lockdown, evident from the steady collections of 97.8% in April and 95.2% in May, for the REIT portfolio assets. The demand prospects of the portfolio are adequate, as reflected in the leasing of ~0.7 mn sqft area in Q1FY2021, of which 60% was leased to new tenants. However, sustained weakness in the economic environment may impact the incremental leasing and the realisation of mark-to-market potential. ICRA notes that tenant leases contributing to ~25% of the gross rentals will be due for expiry over the next three years and any prolonged impact of the Covid-19 situation and the resultant weakness in business prospects of tenants may increase tenant vacancy. The risk is partially mitigated by the strong tenant profile and the lower-than-market rentals, which increase the tenant stickiness.

ICRA believes the credit profile of the REIT will remain stable on the back of the large and stable operational portfolio, the anticipated growth from assets currently under development and the low leverage at the consolidated level.

## Key rating drivers and their description

### Credit strengths

**Well diversified and large portfolio of assets with strong tenant profile** – The asset portfolio under the REIT includes some of the major business parks located in Mumbai Region, Hyderabad, Pune and Chennai. The initial portfolio has 23.0 mn sqft of completed leasable space, 2.8 mn sqft of under-construction area and 3.6 mn sqft of proposed development area. The completed leasable area includes 3.3 mn sqft, which was completed in FY2020. Additionally, 0.8 mn sqft area received completion certificate in June 2020. The overall committed occupancy level of the portfolio remains healthy, at ~92%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The tenant profile in the REIT portfolio remains strong and diversified with leading multinational and Indian corporates - the top-10 tenants generate around 41% of Mindspace REIT's gross rentals. Some of the key tenants in the portfolio are Accenture, Qualcomm, Barclays, BA Continuum, Schlumberger, JP Morgan, and Amazon.

**Healthy track record of sponsors and REIT manager** – The REIT manager and sponsors are part of KRC, which has considerable experience in the development and management of commercial real estate. KRC is one of India's leading group in real estate development and retail business, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, malls and residential segments. As of March 31, 2020, KRC has developed properties across various businesses, including ~28.5 mn sqft of commercial projects, six operational malls, 2,554 operational hotel keys and residential projects across five cities in India. In addition, the Group operates 278 retail outlets across India.

**Low initial leverage and strong debt coverage** – The consolidated debt stood at Rs. 7,382 crore as on March 31, 2020, which primarily includes lease rental discounting loans in various SPVs. A sizeable amount of debt was pre-paid through inflows from the primary issuance as well as portion of proceeds from offer for sale. The total issue size was Rs. 4,500 crore, which included fresh issuance of Rs. 1,000 crore and offer for sale of Rs. 3,500 crore. The consolidated debt is Rs. 3,324 crore post listing as of August 10, 2020. The incremental debt drawdown for the under-construction assets will increase the debt to some extent by FY2021 end. ICRA estimates the Debt/Net Operating Income (NOI)<sup>1</sup> to remain comfortable in the range of 2.75x-3.15x in FY2021 and LTV in the range of 15-17.5%. Low initial leverage provides financial flexibility to fund the future construction and acquisitions.

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<sup>1</sup> Net Operating Income (NOI) is defined as revenue from operations less direct expenses

**Restrictions on leverage level and under-construction portfolio** – The REIT regulations restrict the extent of under construction assets in the portfolio to less than 20% of the asset value and the leverage to less than 49% of the asset value.

### Credit challenges

**Vulnerability of commercial real estate sector to Covid-19 induced economic downturn** – Though commercial office leasing segment had minimal impact of the Covid-19 pandemic and the subsequent lockdown (evident from the steady collections of 97.8% in April and 95.2% in May, for the REIT portfolio assets), sustained weakness in the economic environment may impact the incremental leasing and the realisation of mark-to-market potential for the REIT assets. ICRA notes that tenant leases contributing to ~25% of the gross rentals will be due for expiry over the next three years and any prolonged impact of the Covid-19 situation and the resultant weakness in business prospects of tenants may increase tenant vacancy. However, the risk is partially mitigated by the strong tenant profile and the lower-than-market rentals, which increase the tenant stickiness. The demand prospects of the portfolio are adequate, as reflected in the leasing of ~0.7 mn sqft area in Q1FY2021, of which 60% was leased to new tenants.

**Possible increase in leverage levels** – Expected initial leverage after REIT formation is estimated to be low. However, in case of any aggressive acquisition plans, the leverage may increase, thus impacting the consolidated debt coverage indicators. However, regulatory restriction on leverage will mitigate the risk to some extent.

### Liquidity position: Superior

The liquidity position of the REIT will be supported by the stable rental income from the underlying assets and the low operational expenditure in the leasing business. Healthy fund flow from operations will be adequate to cover the debt servicing obligations. The average monthly principal and interest obligations in FY2021 (post REIT listing) are estimated at ~Rs. 48 crore, while the average monthly net operating income is expected to be upwards of Rs. 110 crore. Additionally, the REIT has cash, bank balances and DSRA of ~Rs. 250 crore as on March 31, 2020. Further, the REIT has proposed to maintain an overdraft limit of Rs. 550 crore post listing, which will enhance the liquidity profile. The LTV is expected to remain comfortable, in the range of 15-17.5% post listing, providing significant debt headroom for construction activities and future acquisition.

### Rating sensitivities

**Positive triggers** – Not Applicable

**Negative triggers** –

- Higher-than-anticipated borrowing or a decline in the net operating income that increases the Net Debt/NOI to above 4.5x
- Large vacancy for a prolonged period
- Significant time and cost overruns in the under-construction assets as well as a delay in incremental lease tie-ups

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Real Estate Investment Trusts</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Mindspace

REIT and its subsidiaries (as mentioned in Annexure-2)

### About the issuer

MindSpace REIT is a Real Estate Investment Trust listed in India under the SEBI Real Estate Investment Trust Regulations, 2014. It is incorporated as a registered Trust and listed through a public issue of units. The sponsor of MindSpace REIT is the K Raheja Corp Group, which has contributed shares in eight SPVs to the REIT in lieu of units in the latter. MindSpace REIT primarily hold interests in rental yielding commercial real estate assets (Grade-A office portfolio). The REIT also plans to house a facility management division in one of the SPVs. The initial asset portfolio of the REIT has a total leasable area of 29.5 mn sqft, including a completed area of 23.0 mn sqft, an under-construction area of 2.8 mn sqft and 3.6 mn sqft of planned area for future development. The REIT may also acquire additional assets in future as per its investment criteria to further grow the portfolio inorganically.

### Key financial indicators (audited)

	FY2019 <sup>#</sup>	FY2020 <sup>#</sup>
Operating Income (Rs. crore)	1431.6	1766.0
PAT (Rs. crore)	515.4	513.9
OPBDIT/OI (%)	70.8%	62.9%
PAT/OI (%)	36.0%	29.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.0	3.9
Total Debt/OPBDIT (times)	6.0	6.6
Interest Coverage (times)	2.3	2.2

# - consolidated pre-REIT numbers for the portfolio as per the offer document

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	28-Aug-2020	25-July-2020	FY2020	FY2019	FY2018
1	Issuer Rating	Long Term	0.0	0.0	[ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	-	-	-

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

## Annexure-1: Instrument details – Not Applicable

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Intime Properties Limited	89%	Full Consolidation
Sundew Properties Limited	89%	Full Consolidation
K. Raheja IT Park (Hyderabad) Limited	89%	Full Consolidation
Mindspace Business Parks Private Limited	100%	Full Consolidation
Gigaplex Estates Private Limited	100%	Full Consolidation
Avacado Properties & Trading (India) Private Limited	100%	Full Consolidation
KRC Infrastructure and Projects Private Limited	100%	Full Consolidation
Horizonview Properties Private Limited	100%	Full Consolidation

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