

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

July 14, 2021 | Mumbai

Mindspace Business Parks REIT (Mindspace REIT)

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.175 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Rs.500 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD AAA r /Stable (Reaffirmed)
Rs.375 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD AAA r /Stable (Reaffirmed)
Rs.200 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.300 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Corporate Credit Rating	CCR AAA/Stable (Reaffirmed)
Rs.250 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AAA/Stable**' rating to proposed non-convertible debentures (NCDs) worth Rs 175 crore of Mindspace Business Parks REIT (Mindspace REIT). CRISIL Ratings has also reaffirmed its rating on market-linked debentures (MLDs), NCDs (including proposed NCDs of Rs 225 crore) and commercial paper at 'CRISIL PP-MLD AAAr/CRISIL AAA/Stable/CRISIL A1+'. The corporate credit rating has also been reaffirmed at 'CCR AAA/Stable'. CRISIL Ratings has received draft term sheet for NCDs of Rs 400 crore, and the proposed terms and conditions largely are in line with those of the real estate investment trust's (REIT's) existing debentures.

Mindspace REIT is sponsored by the K Raheja Corp group. The REIT owns eight special purpose vehicles (asset SPVs) comprising 10 commercial offices, information technology (IT) parks and special economic zone (SEZ) assets, and houses the facility management division.

The ratings continue to reflect Mindspace REIT's comfortable net loan-to-value (LTV) ratio, characterised by low debt, strong debt protection metrics supported by a cap on incremental borrowings, and stable revenue profile of the assets, amidst benefits of healthy occupancy and geographic diversification. The strengths are partially offset by susceptibility to volatility in the real estate sector, causing fluctuations in rental rates and occupancy levels.

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. Further, planned construction activity may be impacted if there are restrictions on mobility of labour and resources to contain the pandemic in case of any additional waves. CRISIL Ratings will continue to monitor events around the pandemic.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Mindspace REIT with those of its asset SPVs, in-line with its criteria for rating entities in homogeneous groups. 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 Securities and Exchange Board of India's (SEBI's) REIT Regulations, 2014, Mindspace REIT and its asset SPVs are mandated to 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 the ability to refinance:** Consolidated gross debt was low at Rs 3,764 crore as on March 31, 2021. Consequently, Mindspace REIT has a comfortable LTV ratio of 15.3% (on gross debt basis as per

external valuation dated March 31, 2021). The low LTV ratio shields investors from the risk of any decline in property prices and its consequent impact on refinancing.

The proceeds from NCDs of Rs 275 crore were utilised primarily for refinancing external debt at underlying asset SPVs. These instruments are non-amortising with bullet repayment at the end of 36-38 months from deemed date of allotment, while the coupon is payable quarterly.

The MLDs of Rs 875 crore were also utilised primarily for refinancing external debt at underlying asset SPVs. These instruments are similar to the NCDs in terms of amortisation, and have a tenure of 577-1156 days from the date of allotment. The coupon is accruing and to be paid at the time of redemption of MLDs, subject to terms of and conditions mentioned in the transaction documents.

The proposed NCDs of Rs 400 crore are expected to be utilised for - a) refinancing of external debt at underlying SPVs, b) construction finance for ongoing projects and future development c) working capital, d) funding acquisitions and/or e) other general corporate purposes. These are expected to be non-amortising with bullet repayment at the end of 3 years, while the coupon will be payable quarterly as per the draft term sheet.

- **Strong debt protection metrics:** CRISIL Ratings believes that Mindspace REIT will have healthy average consolidated interest service coverage ratio (ISCR) at over 2.0 times, including for all incremental financing in the underlying asset SPVs. This is because incremental debt, over and above the proposed instruments and existing debt, to be raised over the next 3-5 years is expected to be around Rs 3,000 crore. Consequently, LTV and debt-to-NOI/EBITDA (net operating income/earnings before interest, tax, depreciation and amortization) ratios should remain comfortable at below 40% and 4.5 times, respectively, vis-à-vis 49% and 5.0 times, respectively, as per the terms of the existing as well as proposed instruments.
- **Stable revenue of asset SPVs:** Mindspace REIT's entire revenue comes from 10 commercial offices, IT parks and SEZs. Consolidated revenue was Rs 1,363 crore (excluding revenue from works contract) for fiscal 2021. The portfolio assets had committed occupancy of 84.2% as on March 31, 2021. Committed occupancy has come down from 86.9% in December 2020, primarily due to vacancies of around 8.0 lakh square feet (sq. ft) in Mindspace Madhapur, Hyderabad; committed occupancy on same store basis also declined to 86.8%. The REIT entered into new agreements to the tune of 35.0 lakh sq. ft during fiscal 2021 at a re-leasing spread of 19.5%. Hence, the increase in vacancy level is anticipated to be short-term with gradual improvement expected post current fiscal. Superior asset and service quality, favourable location in prime areas of Hyderabad, Mumbai Region, Pune and Chennai, good demand and competitive rental rates should support occupancy going forward.

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. Top 10 tenants and technology sector concentration at 40.3% and 44.2% of gross contracted rentals, respectively, as on March 31, 2021, exposes the REIT to moderate concentration risk. Further, as on March 31, 2021, 23.1% of the total completed leasable area will be due for renewal between fiscal 2022 and fiscal 2024. 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. This could adversely impact cash flow, and hence, will be a key rating sensitivity factor.

Liquidity: Superior

Liquidity remains strong, supported by healthy average consolidated ISCR of over 2.0 times, including for permitted additional financing. Further, a low LTV ratio enhances 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 Ratings 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 the value of underlying assets, leading to LTV ratio of over 40%
- Higher-than-expected incremental borrowing
- Reduction in overall committed occupancy to below 80%
- Significant delay in the completion and leasing of under construction assets
- Any other non-adherence to the structural features of the transaction

About the trust

Mindspace REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's REIT 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.) 100 lakh sq. ft with committed occupancy 88.0% as on March 31, 2021, 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:

- An IT park, Mindspace, in Malad, Mumbai region. The property has been operational since 2004, and has a total leasable area of approx. 7 lakh sq. ft with committed occupancy of 94.0% as on March 31, 2021.
- A commercial office, The Square, in Bandra Kurla Complex, Mumbai region, with a total leasable area of approx. 1 lakh sq. ft and committed occupancy of 27.4% as on March 31, 2021. The property was acquired by the group in August 2019, and is being leased gradually.

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

- An SEZ, Mindspace, in Airoli (East), Mumbai region. The property has been operational since 2007, and has a total completed leasable area of approx. 47 lakh sq. ft with committed occupancy of 91.2% as on March 31, 2021, while an additional area of approx. 21 lakh sq. ft is expected to be gradually developed over the medium-to-long term.
- 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 with committed occupancy of 99.9% as on March 31, 2021.
- 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 with committed occupancy of 100.0% as on March 31, 2021, while an additional area of approx. 1 lakh sq. ft is expected to be gradually developed over the medium-to-long term.
- An 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 with committed occupancy of 71.1% as on March 31, 2021, while an additional area of approx. 6 lakh sq. ft is expected to be gradually developed over the medium-to-long term.

Gigaplex Estate Pvt. Ltd (Gigaplex) owns and operates an SEZ/IT park, Mindspace, in Airoli (West) (Mumbai region). The property has been operational since 2013, and has a total completed leasable area of approx. 35 lakh sq. ft with committed occupancy of 68.5% as on March 31, 2021, while an additional area of approx. 17 lakh sq. ft is under construction and expected to be completed in phases over the next two fiscals.

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

- Owns and operates an SEZ/IT park, Commerzone, in Kharadi, Pune. The property was completed in fiscal 2020, and has completed leasable area of approx. 13 lakh sq. ft with committed occupancy of 93.1% as on March 31, 2021. Another approx. 13 lakh sq. ft of area is under development or proposed to be developed over the medium term.
- The facility management arm, housed under this entity beginning October 1, 2020, provides services for each asset under the REIT. Services 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 property was completed in June 2020, having completed leasable area of approx. 8 lakh sq. ft. with committed occupancy of 8.3% as on March 31, 2021

Key Financial Indicators

Particulars	Unit	2021**	2020*
Revenue from operations	Rs.Crore	1,138	1,757
Profit After Tax (PAT)	Rs.Crore	335	514
PAT margin	%	29.4	29.3
Adjusted gearing	Times	0.23	3.22
Interest coverage	Times	5.06	2.67

*Fiscal 2020 financials are prior to REIT listing and based on condensed consolidated provided by the issuer.

**Fiscal 2021 financials are not comparable with that of fiscal 2020 and pertain 8 month period since August 1, 2020 post listing of REIT.

Any other information

Key Financial Covenants for MLDs tranche I and II of Rs 500 crores and Rs 375 crores respectively, and NCDs tranche I and II of Rs 200 crores and Rs 75 crores respectively

At the REIT level:

- Gross Total Debt / EBITDA or NOI <= 5.00x
- Loan to Value <= 49%

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible	NA	NA	NA	400.0	Simple	CRISIL AAA/Stable

	debentures*						
INE0CCU07033	Non-convertible debentures	18-Mar-2021	6.69%	17-May-24	75.0	Simple	CRISIL AAA/Stable
INE0CCU07025	Non-convertible debentures	17-Dec-2020	6.45%	16-Dec-2023	200.0	Simple	CRISIL AAA/Stable
INE0CCU07017	Long-term principal protected market linked debentures	29-Sep-2020	10-year G-Sec linked	29-Apr-2022	500.0	Highly complex	CRISIL PP-MLD AA/r/Stable
INE0CCU07041	Long-term principal protected market linked debentures	18-Mar-2021	10-year G-Sec linked	17-May-2024	375.0	Highly complex	CRISIL PP-MLD AA/r/Stable
NA	Commercial paper	NA	NA	7-365 days	250.0	Simple	CRISIL A1+

*Not yet placed

Annexure - List of Entities Consolidated

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		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Corporate Credit Rating	LT	0.0	CCR AAA/Stable	09-03-21	CCR AAA/Stable	11-12-20	CCR AAA/Stable		--		--	--
					--	09-10-20	CCR AAA/Stable		--		--	
					--	22-09-20	CCR AAA/Stable		--		--	
					--	18-08-20	CCR AAA/Stable		--		--	
					--	26-06-20	Provisional CCR AAA/Stable		--		--	
Commercial Paper	ST	250.0	CRISIL A1+	09-03-21	CRISIL A1+	11-12-20	CRISIL A1+		--		--	--
					--	09-10-20	CRISIL A1+		--		--	
					--	22-09-20	CRISIL A1+		--		--	
Non Convertible Debentures	LT	675.0	CRISIL AAA/Stable	09-03-21	CRISIL AAA/Stable	11-12-20	Provisional CRISIL AAA/Stable, CRISIL AAA/Stable		--		--	--
					--	09-10-20	Provisional CRISIL AAA/Stable		--		--	
					--	22-09-20	Provisional CRISIL AAA/Stable		--		--	
Long Term Principal Protected Market Linked Debentures	LT	875.0	CRISIL PPMLD AAA r /Stable	09-03-21	CRISIL PPMLD AAA r /Stable	11-12-20	CRISIL PPMLD AAA r /Stable		--		--	--
					--	09-10-20	CRISIL PPMLD AAA r /Stable		--		--	
					--	22-09-20	Provisional CRISIL PPMLD AAA r		--		--	

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

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

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

[Criteria for rating entities belonging to homogenous groups](#)

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