"Mindspace Business Parks REIT's Q2 FY22 Earnings Conference Call"

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Moderator: Good afternoon ladies and gentlemen, and welcome to the Mindspace Business Parks REIT Earnings Conference Call for Financial Results for the Quarter and Six Months ended September 30, 2021. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference

Kedar Kulkarni: Thank you and good afternoon everyone. Welcome to the Second Quarter Financial Year 2022 Earnings Call for Mindspace Business Parks REIT. At this point, we would like to highlight that the management may make certain statements that may constitute forward-looking statements. Please be advised that our actual results may differ materially from these statements. Mindspace REIT does not guarantee these statements or results and is not obliged to update them at any time.

We would like to reiterate that, the acquisition of Asset SPVs by Mindspace REIT was effected on July, 30 2020. Consequently, consolidation of financials of these Asset SPVs with Mindspace REIT has been done effective 01st August 2020. Condensed Consolidated First Half and Full Year 2021 numbers therefore reflect 2 months and 8 months financial performance of these Asset SPVs. However, for the purpose of comparison, in the earnings presentation and for the purpose of this call, we have provided pro-forma Revenue from Operations and Net Operating Income for Q2 and H1 FY22.

I would now like to welcome Vinod Rohira, CEO; and Preeti Chheda, our CFO. Vinod will share the business update and his views on the commercial real-estate. Preeti will further share an update on the financial performance. We will then open the call to Q&A. I now hand over the call to Vinod. Over to you Vinod.

Vinod Rohira: Thank you, Kedar. Good afternoon to all participants. Hope you enjoyed the festive season. Thank you for joining Mindspace REIT's earnings call.

As envisaged during the last quarter earnings, the sectoral tailwinds have further grown stronger during this quarter. The restrictions enforced during the second wave have been relaxed across states. Further, India is now at the forefront of its vaccination drive having already administered over 1.1 billion doses. With a monthly production capacity of over 300 million doses, the entire eligible population of our country will hopefully be fully vaccinated in next few quarters. Post vaccinations, we are witnessing a substantial shift in the mindset from "work from home" towards "work from office". This is in line with the trend observed globally.

Recent reports indicate over 95% of the workforce is back in office in China, while in the US and the EU almost 40% of the employees are back in offices resulting in resumption in demand for office spaces. Even in India, the return to office plans have gathered momentum and we are seeing clients gear up for increased physical occupancy in the coming quarters. We are seeing encouraging signs across our parks as physical occupancy currently stands at c. 13%. As global markets move towards return to office, the same will follow suit in India.

The economic indicators and the robust tax collections in India are indicating a strong economic recovery. Technology companies in India have reported further improvement in business fundamentals in their latest quarterly results, and their hiring numbers have been revised upwards as compared to the numbers announced during the past quarters. NASSCOM report suggests that GCC headcount is expected to increase by 11-12% CAGR to touch ~2 million by 2025. At present, only 15% of the Forbes Global 2000 companies and 26% of Fortune 500 companies have set up GCCs in India. This underscores the immense potential of GCCs expansion in India considering the talent pool the country offers. All these positive trends augur well for the demand for grade A spaces in the coming quarters. As we had highlighted in the past quarters, the new Grade A supply in most micro-markets will not be able to keep pace with the uptick in demand.

On ground, we continue to see increased activity for evaluation and assessment of new and existing consolidation needs of large technology companies. We are excited to see strong tenant engagement for space take up across our markets. Micro-markets of Hyderabad are expected to witness recovery in demand as pre-commitments and additional space take-up from GCC's are expected to keep the absorption momentum high from 2022 onwards. In the Mumbai Region, Thane-Belapur Road micro-market is expected to witness three-dimensional demand driven by fintech, support activities of MNCs and data centers. Many new RFPs have started floating across micro-markets and we will continue to see this activity take greater momentum in the coming quarters. We expect the SEZ policies to be suitably reformed to accommodate the changing demand dynamics of technology footprint in India, allowing for inclusive participation of domestic businesses within the modified SEZ framework.

Our proactive efforts of utilizing the downtime to upgrade our offerings and implementation of health and safety protocols across all our parks, have enabled tenants to scale up their return to office plans. This has not only helped us retain existing tenants within our parks but ensured that they choose us as their preferred partners for their expansion plans. 92% of leasing during the quarter was with our existing tenants which is a testament to this.

The leasing momentum that we have witnessed across our parks in this quarter is in tandem with the growth of technology companies and we expect them to continue their footprint expansion in the coming quarters. We have achieved a gross leasing of 2.1 million square feet within the portfolio in the first half of this financial year of which 0.9 million square feet was in Q2 FY22. We have achieved a releasing spread of 21.6% in this quarter. We would like to highlight some of our key transactions: our BKC asset is now fully leased with the addition of a marquee BFSI tenant. On the ROFO side, in addition to the pre-leasing of c.1.8 msf during the last quarter at Commerzone Madhapur in Hyderabad, this quarter saw pre-leasing activity at our other ROFO asset Mindspace Juinagar located in the Mumbai Region, where we successfully concluded another Build-to-Suit (BTS) lease deal of 0.5 million sq. ft with an IT tenant.

Our Net Operating Income for the quarter stood at INR 3.6 billion, up by 6.7% YoY basis. Our collections have remained strong at over 99% throughout the pandemic, as we continue to focus on having high-quality tenants in our portfolio.

Our distributions stood at INR 2.7 billion or INR 4.60 per unit. Our Net Asset Value has increased to INR 357.8 per unit representing an increase of 3.6% over March 2021.

Reduced interest rates and low gearing of our Portfolio provides us with the room to pursue asset enhancements and other growth opportunities at our parks which are long term value accretive to our Unitholders.

I would now like to take you through the specific operational updates for the second quarter,

- We achieved a gross leasing of 0.9 million sq. ft. for the quarter ended September 30, 2021. Of this 0.6 million sq. ft. was on account of re-leasing and 0.3 million sq. ft. was new area leasing.

- In the first half of this financial year, we have achieved leasing of 2.1 million sq. ft. across our REIT portfolio.

- We are happy to announce that our BKC asset is now fully leased.

- Committed occupancy is at c.85.0% for the September quarter.

- Average rent realized on this 0.9 million sq. ft. of leasing was INR 88 per sq. ft. per month.

- We achieved a re-leasing spread of 21.6% on the 0.6 million sq. ft. area re-leased.

- The in-place rent in our portfolio has grown from INR 57.1 per sq. ft. in the previous quarter to INR 58 per sq. ft.

- 92% of the leasing during the quarter was to existing tenants while balance was to new tenants.

- Our ROFO asset at Mindspace Juinagar in Mumbai has witnessed preleasing of 0.5 million sq. ft.

- Of the total leasable area, our portfolio had 23.9 million sq. ft. of completed area constituting to c. 91% of our portfolio value. 1.8 million sq. ft. is currently under construction and we have another 5.6 million sq. ft. available in the portfolio for future development. Our portfolio is leased to more than 170+ marquee clients with an average in-place rent of INR 58 per sq. ft. and a weighted average lease expiry of 6.7 years.

- Our REIT was awarded the prestigious 'National Builder Winner' and our project Gera Commerzone, Kharadi has won 'Noteworthy Project Award' at the 'The Construction World Architect and Builder Awards 2021'.

- Mindspace Madhapur (Sundew-SEZ) also won various awards including 'Highest Exports', 'Highest Number of Women Employees' and 'Regional Growth Drivers' at Annual Exports Awards organized by Export Promotion Council for EOUs and SEZs at Vishakapatnam SEZ authority.

- As of September 30, 2021, we facilitated over 95,000 vaccinations at our parks which included family members of the labourers and employees who are working for us as well as for our tenants.

- As part of our CSR initiative, we have constructed an additional floor at a hospital at Kondapur, Hyderabad resulting in the addition of 120 new beds and handed it over to the government.

At Mindspace REIT, our endeavor to emerge as a responsible organization motivates us to implement sustainable business practices across our operations.

At this point, I will now hand over to Preeti to walk you through our financial highlights of the second quarter and six months ended September 30, 2021

Preeti Chheda: Thank you Vinod. Good afternoon, everyone.

On the financial performance, we closed the second quarter of the financial year 2022, with a Revenue from Operations of INR 4.2 billion. Net Operating Income for Q2 FY22 stood at INR 3.6 billion, a 6.7% increase over NOI for Q2 FY21. Cost optimization measures helped achieve this NOI. We continue to maintain NOI margin at 80% plus.

We announced a distribution of approximately INR 2.7 billion i.e., INR 4.60 per unit for the quarter ended September 30, 2021. This distribution comprises approximately 93% i.e., INR 4.28 per unit of dividend, which is not subject to tax in the hands of unitholders, and approximately 7%, which is, INR 0.32 per unit of interest. This translates to an annualized distribution yield of 6.7 % on the issue price. With this, the total distribution for H1 FY22 is approximately INR 5.5 billion i.e. INR 9.2 per unit, which translates to an annualized yield of 6.7% on the issue price.

On the funding side, our leverage on the portfolio on a consolidated basis stood at 14.9%. Our net debt as on September 30, 2021 was INR 38.5 billion. We continue to have undrawn committed lines of INR 4.6 billion from financial institutions. Given our low leverage levels and the strength of our balance sheet, we have considerable headroom available in the Portfolio to raise further debt for our Portfolio expansion and inorganic growth opportunities.

During the quarter we raised INR 4 billion through issuance of listed non-convertible debentures at an attractive coupon of 6.1% per annum. With this our average cost of debt stood at 6.9% as of September 30, 2021. We have achieved a substantial reduction of c. 235 bps in our average cost of borrowing over the last 18 months. We continue to pursue opportunities to further reduce our borrowing cost.

Also, during the quarter, we had certain regulatory amendments like reduction in trading lot size, FPIs being permitted to invest in debt securities of REITs, which are very encouraging and would bring in wider investor participation in REITs leading to enhanced depth and liquidity for the instrument. Post the reduction in trading lot size, we have seen the number of unitholders in our REIT grow by over 30%. We expect the move to allow FPIs to invest in debt securities of REITs to help provide long term capital and open up new avenues of fund raise for REITs.

The Gross value of our Portfolio, as valued by the Independent Valuer, stood at INR 257 billion as at September 30, 2021, a 4.4% increase over the value as at March 31, 2021. Our Net Asset Value per unit has increased to INR 357.8 per unit as on September 30, 2021 from INR 345.2 per unit as at March 31, 2021.

With this I now handover the call to Vinod for his concluding remarks.

Vinod Rohira: As anticipated in our previous quarterly earnings call, we are beginning to see strong leasing inquiries across our portfolio. We remain increasingly confident of the commercial market outlook, driven by record tech hiring and growth. Aggressive administration of vaccinations across the country and the buoyant economic activity is expected to lead towards a robust demand cycle in the coming quarters as companies accelerate their transition from "Work from home" to "Work from office".

I thank you all for the patient hearing. I request the operator to now open the floor for questions-and-answers.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: The first question is for our 0.9 million square feet of expiries in the second half of this year. So, do we now see the vacancies are bottoming out? And would you like to share in terms of by when do you see our occupancies moving back to sort of a pre-COVID level? I know it's a little early days, but if you could share any insights on what is your own internal estimate for that.

Vinod Rohira: The activities have certainly become strong. We see demand coming back and we are seeing stickiness of tenants to want to retain & re-lease the spaces. You will see physical occupancy start rising starting first quarter next calendar year. And we continue to see that trend, because most tenants are coming back to office in an eager fashion. So, you will see occupancies rise and reduction in vacancies in the coming quarters.

A Chattopadhyay: So, these 0.9 million square feet, do you expect this should remain flat or it may go up into occupancy in the second half of this year or do you anticipate some further overall portfolio vacancy going up marginally?

Vinod Rohira: So, if you see the 2.4 million square feet, which we had looked at the beginning of the year, including early expiries and vacancies, out of that about 800,000 square feet has been vacated. Additionally, we have already re-leased 800,000 square feet and we have high re-leasing visibility of another 400,000 square feet. So when you combine all of these together, predominantly most of that vacancy picture is clear.

A Chattopadhyay: So out of these 0.4 million square feet, you have high visibility, other 0.5 million square feet is touch and go depending on when discussions are concluded, is that understanding correct?

Vinod Rohira: Yes, so 0.4 million square feet, we've already initiated discussions moving forward. Additionally, once discussions engage, we'll get there.

A Chattopadhyay: Then finally, for all these new leases, which you are signing or maybe the renewal of this, obviously, only for the new leases, especially for The Square and the other assets, where you have done the leasing, what is the rent fit out period or the rent period which will be there for the tenants and by when do we see these rents starting to accrue to the REITs?

Vinod Rohira: So, for this particular asset at BKC, rent starts from 1st April 2022.

A Chattopadhyay: And any forward leases also would be of similar nature?

Vinod Rohira: It depends on size, if it's a large size tenant, they require larger period to fit out, smaller size require reasonably the same time as we have envisaged.

A Chattopadhyay: So around four to six months across the board is a fair assessment?

Vinod Rohira: That's right.

Moderator: Thank you. The next question is from the line of Manish Agarwal from JM Financial. Please go ahead.

Manish Agarwal: My first question would be pertaining to the Gera Commerzone Kharadi on phase-2 asset. So by when is it expected to be ready? And when would the rental commencement start? And how is the pipeline shaping up for this asset particularly?

Vinod Rohira: I can't give you any forward-looking statements, Manish, but we want to bring this asset quickly into the market, which is under construction, 700,000 square feet, targeted to complete by June next year. We are seeing good number of RFPs in that micro market. So we are quite confident of leasing that asset.

Manish Agarwal: You have indicated that there has been an exit withdrawal of 0.2 million square feet. So some tenants seem to have canceled the exit plans. So, what exactly happened over there? This was across which asset?

Vinod Rohira: I'm very happy you raised that question. It's a very strong indicator of the market dynamics. It was our tenant in Mumbai Region in one of our Mindspace Parks, who had submitted the notice for exit. But within six-month period, they realized that the business is coming back and need for space and physical occupancy is important. Consequently, they pulled back the notice just before completion of that tenure. And we are very happy to accommodate. They are one of our marquee tenants.

Manish Agarwal: Third question will be pertaining to The Square Nagar Road. So the run rate over the past three, four quarters seems to have dipped although the asset is currently occupying 100%. What exactly is happening over there?

Vinod Rohira: So, we had mentioned earlier that we were adding 60,000 square feet of additional construction area by retrofitting some part, which was otherwise earlier leased to PVR Cinemas. And that retrofit has got already part pre-leased. So that's the activity that you're seeing.

Manish Agarwal: The rentals haven't started?

Vinod Rohira: For this portion, once the construction completes, rent would start.

Manish Agarwal: And last question on the BKC rental. So, what will be the rental per square feet starting April 01, 2022?

Vinod Rohira: Essentially, I can give you a broad heads up on the gross revenue for the year, is about INR 42 crores annualized.

Moderator: The next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Vinod, you were talking about strong upcoming demand. So, would be great if you can just give us some color around what profile of tenants are you finding particularly active in the marketplace for the next set of leasing? And is there also a category which so far does not seem to be indicating any new activity from their perspective?

Vinod Rohira: I think there's activity across technology spectrum companies, BFSI, FinTech, all of those companies are active. the FAANG companies are also very active. Each micro market has a different demand trajectory, but all micro markets are picking up in terms of enquiries. And I think this will convert to a strong demand for real estate in the coming quarters.

Kunal Tayal: And then the second question was on your own sense about the supply prospects? Sure, these have come down in last 18 months. Do you get a sense that these are projects that just got deferred because of the uncertainty or have they moved out of the supply pipeline on a more permanent basis, that let's say the landlord no longer plans to construct an office asset on these?

Vinod Rohira: It's a combination of both. So, in some micro markets, there was no overhang of under construction supply. There, the new supply would have come from a combination of alternatives where they were trying to convert a residential to commercial, as residential is continuing to do well, the attention has shifted back to doing residential. So that is kind of pushing out prospective probable commercial supply, which would have come to those micro markets. And as you know, product choices are very different now, customers are looking at products very closely and very sensitively for true Grade-A assets. That kind of further diminishes supply. In certain micro markets where the work had paused, you're still not seeing activity on the ground pick up, but no new supply is really coming.

Moderator: The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: My first question is, if we look at your NOI numbers, they've been flat for last four quarters. So, despite declining occupancy, the escalations have ensured that the NOI numbers are flat. How do you see this going forward and when do we start to see a sharp pick up? Will it follow a six-month lag from the start of the leasing pickup? And connected to that is what is also our guidance for the second half if you can shed some light around that?

Preeti Chheda: Mohit, in terms of NOI, as I'd mentioned even earlier, because of deferment of some of the rent start dates, you've seen marginal rise in the NOI, but going forward in the next few quarters, as the rent start coming in for these spaces which we have leased in the last two, three quarters, we should start seeing the uptick in the rent and the NOI consequently.

Mohit Agarwal: And that should be in this fiscal?

Preeti Chheda: It will be over the next two-three quarters, it depends on when the rent start for the respective leases.

Mohit Agarwal: And any guidance you want to give on distribution for FY22?

Preeti Chheda: We would not be able to achieve FOD numbers because of staggered rent starts, but as I said, substantial part of that will be offset by the interest saving that we've achieved in this financial year. I won't be able to give you a precise guidance. I would say a large part of that we should be able to recoup but there'll of course be some residual impact.

Mohit Agarwal: We've talked about on the Airoli West portfolio the process of denotification of SEZ and you've mentioned earlier about some policy changes from the government which had to come. So, any updates around there?

Vinod Rohira: I think it's progressing very well. We are very hopeful that the direction for amending and helping out with allowing for rupee billing and domestic businesses similar to the STPI footprint will be allowed to co-exist in the SEZ. We are hoping for that to come in the next couple of months.

Mohit Agarwal: So that combined with the fact that now leasing will also pick up, any expectation in terms of when this asset could be leased out like in a couple of quarters or so?

Vinod Rohira: So, we're seeing the undercurrent for demand is getting stronger and we're quite confident of being able to lease this asset.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: I'm just following up on the previous question on Airoli West. Is the denotification important for the occupancy levels to go up significantly? In the newer properties in Porur and the one in Hyderabad, we can already see the committed occupancy has gone up, what will be the next big drivers for these two properties?

Vinod Rohira: So denotification certainly will help because it allows SEZ & Non SEZ tenants to co-exist in the park. So, it certainly helps in filling the vacancies up quicker. With respect to Porur, yes, it's a new asset and we're now seeing Chennai demand beginning to pick up. So as that demand trajectory starts to grow, you will see occupancy pick up for that Porur asset as well.

V Ramakrishnan: So, if I can ask for a clarification, Airoli West, is the denotification very important for the numbers from committed occupancy, which is currently close to 68.6% have jumped significantly, or you can do it even before the denotification happens?

Vinod Rohira: So there are two parts to the product offering. One part which we already denotified which is under construction, we are already seeing demand trajectory move up for that non-SEZ building and we're very confident of leasing that out quicker than what we had anticipated. Having said that, additionally, that allows for more room to bring in more denotified assets within that portfolio to offer for additional leasing. While some of those assets we've already applied for denotification, and that will come in as pipeline to bring in more supply, it will certainly help if we can offer non-SEZ occupiers' additional space. So yes, it will help in the reducing of vacancies.

Moderator: The next question is from the line of Shashank Savla from Somerset Capital Management. Please go ahead.

Shashank Savla: First question is related to Airoli West NOI. So, if I look at the net operating income that reduced by around 40 million this quarter from 390 to 350. Is there any reason of what's driving that decrease?

Preeti Chheda: So, what happens is in Airoli West we have certain buildings which have got completed and generally property tax assessment takes a while to complete. Now, since it's almost getting complete, we have better visibility in terms of what that tax would be. So that's one provision of tax which has come in this quarter.

Shashank Savla: Is that a one-off or is it like ongoing one?

Preeti Chheda: One-off.

Shashank Savla: So, if I look at the NDCF at the SPV level, and distribution to the REIT, there is a shortfall of around 200 million from that. So, is that from previous amount held back at the SPV which were not distributed to the REIT?

Preeti Chheda: We had certain amounts which were lying in the escrow account, because we have certain commitments for debt covenants. Since that amount has now got freed up, we have distributed that amount. So, there's a difference because of that.

Shashank Savla: So, I'm just trying to understand going forward would the NDCF at the SPV level be similar to the distribution to the REIT or is there some adjustments or which you make to smooth out the cash flow?

Preeti Chheda: There is nothing of that. This is only a one-off case wherein we had some of these balances lying in the escrow account such as restricted cash. But otherwise, broadly, whatever is the NDCF at the SPV, more than 90% of that we distribute.

Shashank Savla: I'm also trying to understand how the CAPEX spend and the debt which is raised to impact the overall NDCF. So, is there a case that if you borrow more, would you be able to pay out that as distribution?

Preeti Chheda: For us whatever CAPEX we incur, we incur that out of debt. So, generally CAPEX doesn't affect our NDCF because that money comes in from debt. Most of the distributions which we are seeing at the SPV levels and consequently at the REIT that are largely coming out of your net operating cash flows.

Shashank Savla: Generally, I wanted to understand the trends in terms of rents and incentives. So, are you seeing any improvement in terms of incentives you have to provide for new leasing?

Vinod Rohira: Predominantly, the landscape hasn't changed except for the fact that this likely take longer now to do their fit outs, as there are challenges which tenants are facing with respect to either equipment imports or labor not being available. So there is a little extra time they asked for fit out. Otherwise, it's business as usual.

Shashank Savla: Finally, on Chennai which has around like 17% committed occupancy. So, how much time would it take for you to reach your like 80%, 85% occupancy, which is across your rest of the assets?

Vinod Rohira: We should be comfortably leased out in that asset on or before the end of next financial year.

Moderator: The next question is from the line of Satinder Singh Bedi from Eon Investments. Please go ahead.

Satinder S Bedi: I have two small questions. One is Vinod, if you could clarify, again, Airoli West today, so given the 20%-plus differential in occupancy between Airoli West and East, so can you help us understand better in terms of what percentage of Airoli East for example is SEZ and non-SEZ and how does it stack up on Airoli West because it has come out earlier in the discussion that probably denotification is one big kicker that could probably narrow this gap, can cause finally the micro market is the same?

Vinod Rohira: So essentially Airoli East was an SEZ that was built much before Gigaplex, so which is why that entire park currently whatever is built is an SEZ. Gigaplex, we started the project a bit later and in that we had some additional speculative SEZ supply, which unfortunately because of having passed through an 18-month COVID pandemic across, the SEZ demand had slowed down in that zone because everyone was working from home at that point in time. Now, obviously the SEZ seeing a sunset, government realizes that the SEZs have created huge employment opportunities and they want to give a lot of booster to the SEZ to become an attractive place for further employment and technology footprint to grow, so which is why flexibilities around denotifying in allowing for domestic rupee billing, etc., to be participated in the SEZ are expected. We have more opportunity in Gigaplex because most of Airoli East is leased. So Gigaplex automatically had some speculative space which we had built for SEZ demand which now will get used for non-SEZ demand.

Satinder S Bedi: So what we're saying is East is otherwise fully SEZ, West is almost fully SEZ but by changing a part of it to non-SEZ, we will be able to fill it up?

Vinod Rohira: Yes, but at the same time when you get this legislative change that will happen, will allow us flexibility in non-SEZ, not just Airoli East or West, anywhere we have SEZs, we will be able to bring in rupee billing in domestic businesses to participate, which allows for more demand to come to the SEZ portion of our development. So, it'll be universally probably giving benefit to all parks.

Satinder S Bedi: Preeti, going back to the NDCF build up, you've explained the difference in the NDCF and SPV level and SPVs to REIT and we also discussed the CAPEX and the debt drawdown. Now, the debt drawdown is about Rs.1,224 million, the CAPEX including the interest is Rs.1,081 million, that is a difference of about Rs.206 million, and then there's a working capital change of about Rs.170 million. So, is part of this contributing to the distribution finally, can you help us understand this piece?

Preeti Chheda: Yes, sure. So, as far as CAPEX goes, as per the accounting requirements, some of the fit-out, which is generally CAPEX for us gets classified under working capital. So, if you add that then broadly most of the CAPEX is funded by the debt which we have raised. Now, in terms of the overall NDCF, all your working capital changes also a part of your operating cash flows, because keeping the fit-out cost aside, only other things are largely your creditors & debtors movements. So, working capital is also part of your operating cash flows and therefore, they do contribute to your NDCF.

Satinder S Bedi: So, this Rs.206 million difference between the drawdown and the CAPEX, is that Rs.206 million contributing to the NDCF payout?

Preeti Chheda: Yes, it does, but that has got drawn to fund the fit-out cost which is sitting in working capital. Essentially most of our debt gets drawn for the purpose of CAPEX. So here the difference which you see has gone to fund some of the working capital. Now, working capital number which you see has certain positives and negatives. So the fit-out cost which I am talking about is one of the constituents of the working capital changes. So, if you take that, in CAPEX, and broadly your net debt is taken to fund our CAPEX plus fit out for the tenant.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just on the previous question, Preeti, your working capital is a positive Rs.17 crores and into this we should subtract minus Rs.20 crores because of fit out, so what is causing this for Rs.37 crores working capital gross?

Preeti Chheda: As you know, I've always been telling this working capital changes are positive, negative quarter-on quarter. This time, there have been certain provisions which we made from cash flows & those have not happened. And those get added back as they have been reduced from your PAT. Plus there have been certain positive cash flows on the working capital side on the creditors, that also has helped get this working capital to positive.

Sameer Baisiwala: Okay, but in real life, like which creditor has contributed positively?

Preeti Chheda: So what happens is, any kind of increase in creditors or reduction in debtors, all of these add to your CAPEX, because that's how this whole cash flows get reported. So any increase in your CAPEX essentially gets added to that and of course, there are provisions also which get added back because these are deducted from your revenue from operations.

Sameer Baisiwala: Second question related to this is as you got 1.7 million square feet of new completions coming up next year and plus your vacancies will go down, so all of this new leasing will probably give up a lot of deposits. So, how do you think about that, I mean, will this all be used for DPU?

Preeti Chheda: Yes, so generally everything which forms part of your working capital movements, all of that becomes a part of NDCF. And we've always had that, Sameer, because in some quarters, you have positive, negative on security deposits also.

Sameer Baisiwala: Sure, fair enough. I just wanted to understand where you will continue with that.

Preeti Chheda: Yes, we will.

Sameer Baisiwala: The second question is, how are you thinking about new construction starts for Brownfield expansion beyond this 1.7 msf, which is just about nearing completion?

Vinod Rohira: Great question. I think we are already firming up on our plans to start construction in each of our parks. We have an additional c. 1 million square feet to build in Pune and we have the redevelopment opportunity in Hyderabad which is 1.3 million square feet. We are on track to bring those as envisaged into the market. Already ground work in terms of the design, detailing, approvals, all of that is in process. We should break ground really soon.

Sameer Baisiwala: So, 2.3 million square feet is what you will start in 2022 and delivery by FY2024-25?

Vinod Rohira: That's right.

Sameer Baisiwala: Any thoughts on Airoli West?

Vinod Rohira: We are seeing demand trajectory move up. Airoli West, we want to continue to position additionally for similar build-to-suit opportunities to what we did in the past. We believe there is more scope to do those going forward in the future.

Sameer Baisiwala: My final question is on your Hyderabad ROFO asset. As you mentioned that you would rather want to acquire close to OC and fit out getting completed but given the current low interest rate environment, and who knows what happens in one year, do you not want to lock it earlier than later?

Vinod Rohira: So we are working in that direction and we want to bring it in soon at the right and most appropriate time, we will take it up in the next couple of quarters.

Sameer Baisiwala: If you can confirm whether that would be yield accretive for the current shareholders?

Preeti Chheda: At this stage, I would say, we will do whatever is in the best interest of the unit holders, whether it be yield or NAV or other parameters. I am sure we will be discussing with the board as Vinod said in a few quarters and at an appropriate time we will have the asset brought in.

Moderator: The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Could you speak a bit about your data centers plans in any of the properties?

Vinod Rohira: Data centers currently for India is primarily the build-to-suit space. And in that, we have fortunately footprint in Mumbai region and Hyderabad where we can explore opportunities for build-to-suit. We are continuing to do that. We will see some demand continue to be there for those micro markets for data centers.

Sri Karthik: I just wanted to double check the indicative guidance you have given, for Porur, do you expect to see full occupancy levels by the end of FY'23, right?

Vinod Rohira: That's right.

Moderator: The next question is from the line of Rahul Marathe from ICICI Prudential Pension Funds. Please go ahead.

Rahul Marathe: Just a small book-keeping question. So, currently, our net debt-to-market value is 14.9%. So, what will be the maximum level where we would not exceed this?

Preeti Chheda: Technically, as per the REIT regulations, we can go up to 49% LTV, but our comfort would be somewhere around 25% to 30%. If it goes beyond that and we see some real lucrative opportunities, then we wouldn't mind going and doing further equity rise at that point in time.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Mindspace Business Parks REIT, that concludes this conference. Thank you for joining us and you may now disconnect your lines.