"Mindspace Business Parks REIT's Q1 FY22 Earnings Conference Call"

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Moderator: Good afternoon Ladies and gentlemen, and welcome to Mindspace Business Parks REIT's First Quarter Financial Year 2022 Earnings Conference Call. 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 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 over to Mr. Kedar Kulkarni. Thank you and over to you, sir.

Kedar Kulkarni - KRC: Thank you and good afternoon everyone. Welcome to the First 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 on this call 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 are pleased to announce that the trading lot for Mindspace REIT units has been reduced to 1 from 200 earlier effective August 11, 2021. This much-anticipated move by SEBI is expected to enhance depth and liquidity for the instrument and encourage a wider investor participation.

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 macro environment and 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.

Vinod Rohira: Thank you, Kedar. Good afternoon, everyone and thank you for joining Mindspace REIT's earnings call. When we conducted our last earnings call, the nation was grappling with acute second wave, which delayed the return to normalcy. During most part of the first quarter, various movement related restrictions were in place across geographies. However, our parks offered uninterrupted support to our tenants ensuring their business continuity. Since then, the vaccination program has seen an uptick with over 500 million doses administered so far across the country and decline in overall active cases from peaks seen during the second wave. Various state governments have announced gradual relaxation of lock-down, and other restrictions as a step towards return to normalcy. We have seen a resurgence of economic activity, a continued rise in employment numbers and robust financial performance within our client universe. A continued push towards vaccinations at a fast pace is key to tackling the possible third wave. Once we have seen the workforce vaccinated, we will begin to see momentum shift towards "Return to Workplace".

We continue to remain optimistic on the long-term business outlook of Grade A office spaces. Global multi-nationals are increasingly looking at India as a center for innovation, knowledge, and technology. As per the NASSCOM report, the revenue for IT and BPM services is anticipated to grow from USD 190 billion in 2020 to USD 300 billion to 350 billion in 2025.

Top ten IT firms have exponentially increased their headcount even during the pandemic and the hiring trends are expected to remain strong in the coming year. The pandemic has also fueled the GCC growth trajectory in India, with direct employment expected to increase significantly from 1.3 million at present to 2.2 million to 3 million by 2025. We anticipate these strong underlying trends to translate into a demand upswing towards the best managed asset eco-systems. We are also confident to achieve significant mark-to-market opportunities for the vacant spaces at our parks.

Globally, employers are seeking to bring their employees back to office as they are putting the return-to-work plans in motion. We anticipate Indian firms to follow suit as the situation on the ground continues to improve. This is well supported by rapid employee vaccination programs undertaken by India Inc. Offices are re-emerging as the most preferred places to work, providing an inclusive environment for employees to ideate, collaborate, optimize, and grow. We have already facilitated c. 60,000 and more vaccinations across our parks in all geographies for our occupier's employees and their families.

We achieved a gross leasing of 1.2 million square feet within the portfolio. Additionally, we are pleased to announce that our Under Construction ROFO asset, Commerzone Madhapur, at Hyderabad has seen pre-leasing of 1.8 million square feet. Our collections continue to remain strong at over 99% throughout the pandemic. Our Net Operating Income for the quarter stood at INR 3,596 million, marginally up on a sequential basis. Our distributions stood at INR 2,728 million or INR 4.60 per unit.

In our endeavor to maximize stakeholder value throughout the lifecycle of assets, as announced during the previous call, we have firmed our plans to proceed with re-development for two wings at Mindspace Madhapur (subject to requisite approvals). This shall potentially increase the leasable area of the building under re-development from 0.36 million square feet to c. 1.3 million square feet, subject to final designs and approvals. On the other hand, we remain focused on re-energizing our Parks and maintaining high standards of health and safety to keep them ready for our tenants as they return to office.

On the demand side, we continue to see increased activity for evaluation and assessment of new / consolidation needs of large technology occupiers. This is a welcome indicator towards pick-up in demand activity once substantial workforce returns to office. We continue to see sizable contraction in new Grade A supply in most micro-markets. With available ready to offer Grade A supply, we expect to realize a healthy mark to market opportunity as we fill up our vacancies. Rentals in our micro markets continue to remain stable and we do not see any pressure on the same. We continue to witness strong pickup in demand from flexi office space providers as they move towards offering enterprise solutions. Tenants continue to consolidate their presence in most of the micro markets that we are present in. We are focused on ensuring higher renewals from existing footprints of occupancy, leasing out vacant spaces and bringing back employees to the workspace as the situation improves.

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 first quarter,

- We achieved a gross leasing of 1.2 million square feet for the quarter ended June 30, 2021. Of this 1.1 million sq. ft. was on account of re-leasing and 0.1 million square feet was new area leasing.
- Average rent realized on this 1.2 million sq. ft. of leasing was INR 60 psf per month and achieved re-leasing spread of 56.3% on 1.1 million sq. ft. area re-leased
- 91% of the leasing during the quarter was to existing tenants while balance was to new tenants. We signed up 3 new tenants during the quarter.
- Our ROFO asset at Hyderabad is set to be completed in phases during FY2022. We are pleased to announce that 1.8 million square feet area of the asset is pre-leased to a telecom giant.
- We received occupancy certificate for the hotel building at Madhapur, the building is already leased out completely with rent commencing in Q3 FY2022. We have also received partial occupancy certificate for our building at Airoli West. These area additions and proposed re-development at Hyderabad park has resulted in our portfolio size increasing from 30.2 million square feet as of March 31, 2021 to 31.2 million square feet as of June 30, 2021.
- Of the total leasable area, our portfolio had 23.8 million square feet of completed area which constituted ~91.7% of our portfolio value. 1.8 million square feet is currently under construction and we have another 5.6 million square feet available in the Portfolio for future development. The Portfolio is leased to more than 165 marquee clients with an average in-place rent of INR 57.1 per square feet and a weighted average lease expiry of 6.6 years.
- Our collections continued to remain robust at more than 99% of the gross contractual rentals during the quarter.
- Our committed occupancy of the portfolio stands at 84.4%.
- On same store basis, our committed occupancy stood at 84.4% as compared to 86.8% at the end of March 21. Decrease in same store committed occupancy is primarily on account of addition of 0.8 million square feet area at Chennai for which we had received occupancy certificate during Q1 FY2021.
- During our previous conference call, we had guided towards re-leasing visibility of 0.80 million square feet out of the scheduled expiries due in first half. We remain on track to achieve that number as we have already re-leased 0.44 million square feet during the quarter.
- We remain on track with the development of our two under construction projects – one building at Gera Commerzone, Kharadi, Pune and one building at Mindspace Airoli (W), Mumbai Region, to be completed in a phased manner. We continue to invest in further

energizing our parks, providing our tenants with a renewed experience when they return to the workspace.

- Our building at Project Gera Commerzone Kharadi received the "Platinum certification from IGBC" while our building at Mindspace Madhapur received LEED Gold certification from USGBC

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

- In furtherance of our sustainability agenda, we became India's first real-estate entity to join Climate Group's RE100 initiative. As a part of this initiative, we have committed to transform to 100% renewable electricity usage across areas serviced and maintained by us by 2050. On a normalized basis, our parks have an annual electricity usage of over 100 Giga Watt Hours which represent a sizable opportunity to transform to green energy. Previously, we have also pledged our commitment to the EV100 initiative of Climate Group to transition to 100% electric mobility within our parks by 2030.

We extended our support to construct additional floor at a Government hospital in Hyderabad. The project was completed within a short span of 45 days and is expected to enable capacity enhancement of 120 beds. In addition, we also continue to assist frontline warriors and marginalized covid patients. We continue to work with various stakeholders in this hour of need.

At this point, I will now hand over to Preeti to walk you through our financial highlights of the quarter and full year.

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

We are happy to announce the financial results for Mindspace REIT for the first quarter of the Financial Year 2022. Despite the challenging market conditions, we maintained our Net Operating Income (NOI) for Q1 FY 2022 at INR 3.6 billion.

Our revenue from operations for Q1 FY 2022 stood at INR 4.2 billion. Cost optimization measures helped achieve NOI of INR 3.6 billion for Q1 FY 2022, which is marginally higher than Q4 FY 2021. 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 June 30, 2021. The distribution comprises approximately 92.0% i.e., INR 4.23 per unit of dividend and approximately 8.0 % i.e., INR 0.37 per unit of interest. This translates to an annualized distribution yield of 6.7% on the issue price.

Our net debt as of June 30, 2021 stands at INR 37 billion. Leverage on the Portfolio continues to remain low at 14.9%. Besides, we also have undrawn committed facilities of INR 4.5 billion. Over the last few quarters, we have achieved substantial reduction in our funding cost, from an average cost of debt of 9.2% as of March 31, 2020 to 7.0% as of June 30, 2021. Over the last one year, we have converted approximately 28% of our current outstanding debt to fixed cost debt. We continue to pursue opportunities to further convert part of our variable cost debt to fixed cost debt to reduce our overall cost of debt. As stated previously our strategy would be to deploy a combination of short to medium term and long-term debt with different maturities as also a combination of fixed and variable debt.

With this, I thank you all for the patient hearing. And I hand over to Vinod to conclude this briefing. Over to you, Vinod.

Vinod Rohira: Thank you, Preeti. Although major part of the last quarter witnessed Covid related restrictions, we are encouraged to see the return to normalcy as various state governments have started relaxing the restrictions. The economic outlook continues to look strong. Our business has demonstrated high degree of resilience, and we are more confident to benefit from the upcoming demand revival. We shall also continue to partner with the governments and other institutions to offer necessary support to augment health infrastructure while tackling the pandemic. With this, I request the operator to open the floor for question-and-answer session.

Moderator: Thank you very much. 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: So, my first question is on slide #15, pertaining to the lease expiry profile. So, just a few clarifications. So, we said we have re-leased 0.4 million square feet in Q1, and it says that we have re-leased area vacated in FY'21 of 0.5 million square feet. So, just want to clarify the area which has been re-leased, is that reflected in the asset wise occupancy tables which you shared later in the presentation, I mean, the difference between the occupancy and the committed occupancy?

Vinod Rohira: Yes.

A Chattopadhyay: So, 80% occupancy is net of this re-leasing of area vacated in FY'21, that's the number for the portfolio? I'm just saying instead, we have back filled out of the area vacated in FY'21 which is 0.5 msf. There is another slide behind which shows the portfolio level occupancy. There are two occupancy figures: one current occupancy 80% and another committed occupancy 84%. So, this 0.5 msf which we have done, that corresponds to this 80% or 84%?

Vinod Rohira: It corresponds to Committed Occupancy of 84.4%.

A Chattopadhyay: So, that is yet to be reflected. So, the leasing which we have done is yet to be reflected in the coming quarters, right, that area under has to go up?

Vinod Rohira: It is already reflected here as committed occupancy. It just translates into a formal lease deed, then it moves into the occupancy bucket.

A Chattopadhyay: Just following up on that, so would that mean occupancy is bottoming out now, and we should see it going upwards?

Vinod Rohira: So, we are seeing businesses doing very well, especially in the universe of our tenants because of the technology push. And we are seeing them push up the employment numbers. We are feeling very confident that tenants are coming back to the workspace sooner than later. We just have to be cautious about making sure that globally, we are fine over the next few quarters from a third wave perspective, and we are good to go.

A Chattopadhyay: Q1 distribution has been resilient. So, would you like to share some lower or upper end of distribution guidance for the year, or would you like to hold back?

Preeti Chheda: As you have seen this time, despite all the challenging conditions that we've gone through, we have given an attractive distribution. Over 90% of the distribution is tax exempt. But in terms of guidance, we would like to see how things unfold. Having said that, as I told in my last conversation as well, while we've had some of the leases which have taken longer to lease and the rents have taken longer to start, but we've achieved a very significant reduction in our interest costs, which has helped us offset the impact. So, I would maintain at that and we will see as we go along.

A Chattopadhyay: Adjusting for all these working capital and other adjustments, should we at least expect the current quarter's run rate to be maintained for the rest of the year, if not higher?

Preeti Chheda: I would not want to comment on any specific number, but I would say continue to work towards delivering our performance.

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

Mohit Agarwal: My first question is on the distribution and the distribution walk down. Not only this quarter, but the last two, three quarters, are we seeing the debt drawdown number is higher than that of the CAPEX that you would have incurred. So, could you explain why because from last three quarters I see the CAPEX is about Rs.375 crores, but the debt drawdown is Rs.640 crores.

Preeti Chheda: So, two things here; first and foremost, one, as you rightly said, CAPEX is fully funded out of debt. There have been working capital changes also. In working capital, we have had some fit-out costs, which is of the CAPEX nature, but from an accounting perspective, it gets classified as working capital. To that extent, that is also funded by debt. And of course, given the nature of certain working capital changes, there have been cashflows which have timing issue. So, just especially, if I were to address this quarter, we've had about Rs.35 crores of tax refunds, which were expected in this quarter, which we received in the previous quarter itself. Similarly, this being the first quarter of the financial year, we've had several expenses which were prepaid for the entire year, and therefore, you've seen the working capital being on a higher side in this quarter. So, there are these timing issues which will happen. And of course, part of the NDCF as we had guided in the IPO documents, has been out of debt, but that's a part of it, which was as it is part of our IPO disclosures as well. But otherwise, the other movements are broadly because of working capital changes as I alluded to.

Mohit Agarwal: So, do you think these numbers would converge over the next few quarters as a one-off?

Preeti Chheda: Yes, some of these one-offs, such as certain prepaid expenses, which have happened in this quarter and some of the timing issues in terms of the cash flow coming earlier or later, would see normalizing.

Mohit Agarwal: You mentioned about your ROFO asset has now been fully pre-leased 1.8 million square feet. So, the building is now complete and its pre-leased. So, is it time that will be inducted into the REIT?

Vinod Rohira: The ROFO Asset is still under construction. So, we have pre-leased it while it is under construction. The asset gets ready in phases and shall start generating rents in phases. So, at the right opportune time where we can create an NAV and yield accretive acquisition, we will do that.

Mohit Agarwal: So just to understand this better, what would be a good time like typically when the OC comes in and probably the rent fee period ends, is that the time that you'd like to add the asset into the wing?

Vinod Rohira: That's right.

Mohit Agarwal: Just one clarification, you've taken an asset for redevelopment. What would be the time taken typically to bring this asset back into and any more plans to redevelop assets in Hyderabad?

Vinod Rohira: So, this is the first re-development for us. We are quite excited subject to all the approvals coming through. We would like to see this asset delivered quickly. We expect the completion sometime in FY25 subject to receipt of approvals. We want to see more of these going forward in the future once we've demonstrated this successfully.

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

Shashank Salva: My first question was on the re-leasing spread of 56%, which seems quite high. I just wanted to clarify whether that's just on the ones which you had re-leased earlier and doesn't include any vacant space or does that calculation includes the vacant space as well?

Vinod Rohira: It includes both. So, it's a combination of assets, some that were lying vacant and some that got re-leased to mark-to-market. That is what the opportunity we've been always talking about. Because our average rents for those assets, for example, some of them were as low as Rs.41, and we were able to get Rs.65 when we re-leased in these markets. So that's where the mark-to-market opportunity really excites us.

Shashank Salva: But does that mean that it also includes assets where you are not receiving any rent, the denominator in that case is zero?

Vinod Rohira: No, so there were certain buildings which had expired, and the tenant had just about vacated them. We were fortunate to get another tenant to fill up that building in this last quarter. And when those rents start, by default, we're getting this mark-to-market opportunity.

Shashank Salva: So, I just wanted to clarify that, when you say vacant, it doesn't sort of take zero into the calculation in the denominator for rent.

Vinod Rohira: That's right, no.

Shashank Salva: And overall, can you also elaborate in terms of the in-place rent and incentives which you have to provide, have there been any significant changes or are you still seeing positive rent increases?

Vinod Rohira: There are no real major tectonic shifts taking place, people have just asked for slightly longer periods for fitting out because of the uncertainty. Otherwise, it's all normal leases.

Shashank Salva: And the mark-to-market potential, which has been trending lower, is there a reason why it's sort of trending lower now?

Vinod Rohira: No, because as our in-place rent increases, and we go on realizing mark-to-market, the residual mark-to-market opportunity appears lower.

Shashank Salva: There were instances such as for Malad, where in-place rents have fallen. Is there any particular reason for that?

Vinod Rohira: The rents haven't fallen, and we are able to achieve the market rents.

Shashank Salva: There are four properties where your committed occupancy is relatively low. So, on Airoli West, the Square BKC and Pocharam, Porur, what is the sort of plans to improve over there?

Vinod Rohira: So, for Airoli West where we have significant SEZ vacancy, we are quite excited about the opportunity that SEZ may open up to allow for the non-SEZ occupiers as well. That means generally, the STPI technology companies shall be able to participate in occupying spaces, which were reserved for SEZ. Once that comes through, we will see traction of leasing to take place there as well. The Porur asset is a new asset that just got completed, which is why it's taking slightly longer to lease because that asset was completed right in the middle of the pandemic and we are now starting to see to rise of interest. So, these will catch up and will be leased out over time.

Shashank Salva: Finally, you mentioned that as vaccination improve, you'll see an improvement in demand, but consequently, won't you also see an increase in supply because some of the construction was impacted by COVID will also get completed, so how do you see the demand trend situation at least for the next 12-months?

Vinod Rohira: As we demonstrated to you in Hyderabad, which everyone would feel has the highest overhang of vacancies in incomplete assets, there is a big difference between a Grade-A asset operator and an asset manager than just a building in the vicinity. And that is getting demonstrated time and time again, that the client is preferring stability of asset management, facilities, and quality of the owner. So those Grade-A assets are getting picked up first. And you will always see a disproportionate rush towards these Grade-A assets. And you will always see the vacancy shrink in Grade-A quickly, while the overhang of supply continues to be there in the marketplace. Having said that, we are still not seeing the restart of construction for incomplete, or half completed projects, in most micro markets. So, we have a strong sense to believe that that supply is not coming in a hurry.

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

Satinder S Bedi: Regarding Airoli West, QoQ has seen a 10% fall in revenue from operation, while the committed occupancy has stayed constant at 68.6% in these two-quarter end period. Any reason for this 10% falls in the revenue?

Preeti Chheda: So, when we say committed occupancy, it also includes leases for which rent commencement will happen in the months to come. The reason you're seeing betterment in terms of a committed occupancy, but the rent is yet to commence, which shall reflect subsequently reflect an increase in the revenue.

Satinder S Bedi: So, what I've seen, is that the occupancy has fallen from 66.4 to 63.8. But the committed stays same. So, normally, occupancy falling would show that some client has moved out, that's the only way occupancy can fall because the increase in space is relatively smaller, you added 100k probably. But the committed occupancy stays. So, either a client has gone out, and maybe another one is committed or something like, but anyway fall in 10% over just a quarter?

Preeti Chheda: Yes, so in terms of the revenue fall, because there would also be certain exits, which we would have announced in the previous quarter itself, the revenues have not come in this quarter. So therefore, you would actually see that revenue tapering for this quarter.

Satinder S Bedi: Another question on the data center. Last quarter, you mentioned about data center. This time is there any interest on top of that. Also is progress on track on the data center project?

Vinod Rohira: Yes, we continue to see interest especially in the Navi Mumbai region for data centers, and we continue to be engaged with tenants. That's all that I can tell you right now.

Satinder S Bedi: And the projects that you announced last time, that is on track?

Vinod Rohira: Yes, that's right.

Satinder S Bedi: JP Morgan seems to have dropped out from the top-10. We have about 3.8% and now we are out of the top-10, which is below 2.5%. What is this movement like?

Vinod Rohira: JP Morgan before the pandemic actually had taken to build to suit facilities for them to consolidate because they were fragmented in each of their markets. And the space that they were to vacate and relocate to a year and a half ago, that project got delayed. They've now vacated, and we already have found a tenant to take that space, which we will talk about in the next quarter.

Satinder S Bedi: This was the Airoli West?

Vinod Rohira: This was Hyderabad.

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

Sameer Baisiwala: The question is on the early exits. So is these 0.2 million square feet that you show on slide #15, is this a new one and I think that in the previous quarter, we had 0.5. So, if can talk about this, are we at the end of it, and who are these tenants who are moving out, are there stress for COVID or some other reason?

Vinod Rohira: This is the additional small tenant of about 100,000 square feet in Hyderabad, and another miscellaneous 40,000 square feet to 50,000 square feet worth of tenants across the portfolio which we have visibility that they will leave in the next six months.

Sameer Baisiwala: Do you see more of these coming, Vinod?

Vinod Rohira: As of now, out of approximately 1.6 million square feet scheduled expiries as of March 2021, we already have a visibility of approximately 1.2 million square feet. So, we are not seeing too much hiccups there going forward.

Sameer Baisiwala: When you see you have the visibility for 1.2 million square feet out of 1.6 million square feet, you are saying of releasing renewals?

Vinod Rohira: That is right. I just said at the end of the first quarter, yes.

Sameer Baisiwala: What I was asking you was about the early exits; are we end of that cycle? Or do you think there could be more coming through?

Vinod Rohira: I would be reasonably confident we are at the end of that cycle. But we still have to be careful going forward. I do not see too many hiccups coming.

Sameer Baisiwala: Now, if I were to think through, the vacant area in the sense, or the task of leasing through next nine months, so I take the current vacant areas, maybe 3.5 million square foot. I think a shade below that. And then the exits and the expiry is which are not committed for, maybe that is another about 1 million square foot and the new completion, that should be, I think, Airoli West 1 million square foot.

So roughly 5.5 million square foot is what we need to do. Is that fair? And second is your gross leasing for Q1 was 1.2 million square foot. What is it that you can expect in Q2, Q3 just to arrive at therefore the net number?

Vinod Rohira: So, we continue to see similar traction for transactions of gross leasing going forward, at least for the next quarter and hopefully, going forward for the other quarters as well. We are seeing grassroots of inquiry begin to happen in different micro markets. And we are seeing the necessity of clients who want to continue with their footprints and are already speaking about renewals on their scheduled expires.

So, all those things are happening. Large new clients with large RFPs are still early days, but they started to begin to talk. So, you will see that traction happen in the next few quarters, where they will then start talking of hard real estate decisions.

Sameer Baisiwala: So, Vinod, that means that until that does not happen, which is large RFPs for new tenants, our vacancies are probably going to continue the way they are if not come off, you know, if not go up even more?

Vinod Rohira: So, it is like this, obviously the large vacancies will go with the large clients, but we are seeing small demand between 50,000, 100,000, 200,000 square feet coming. So, we are reasonably confident we will be able to fill these up.

Sameer Baisiwala: Okay, and you agree with that gross number of 5.5 million square foot that you probably would want to lease up, you know, by the end of this year?

Vinod Rohira: It is not 5.5 million square foot. But I mean, the numbers are given to you broadly in that presentation, happy to get those address for you separately as well. But having said that, if you see our same store increase, when we added 300,000 odd square feet, even that is preleased 84.4%.

So, we are getting traction, even on the under-construction buildings for pre-leasing, which is also a very good sign, including the ROFO asset you saw, which is under construction a year away to complete has already been released 1.8 million square feet.

So, it is a combination of demand that is coming for future and present. We do not want to lose any demand in any of the micro markets.

Sameer Baisiwala: And I think someone asked you earlier also in the call and I am just trying to get an answer to that that at 84% occupancy, are we really at the bottom of it or do you think there could be another 100 to 200 basis points? And how long can we even if it is stable number, how long this bottom can continue? That is what I was trying to find.

Vinod Rohira: We feel the market is quite stable now. We are not seeing too many companies are uncertain about their footprints for occupancy.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment. Please go ahead.

Ashwini Agarwal: I am referring to slide 22. And this also goes back to a question that one of the previous participants had asked. In Airoli West, you have written that you received the SEZ de-notification. So, is that what you were waiting for to bring in non-SEZ clients or is there something else because your response seems to suggest that you are waiting for some more permissions.

Vinod Rohira: So, you are right, the one building that was independently getting constructed could be de-notified. We have got that building de-notified successfully finally, and we already saw traction there where we have leased approximately 200ksf in that under-construction building. And we are seeing more traction for demand as we go along forward.

So, we are reasonably confident that the STPI demand is picking up for that micro market, which is why the residual SEZ, which is in a cluster together, if we get the opportunity to lease that in combination with the SEZ and non-SEZ occupiers that may change the game for us.

Ashwini Agarwal: But you will have to apply for more de-notifications for those buildings?

Vinod Rohira: Yes. That is right. So that is the process, we are waiting for clarity from the government, and they are moving forward in that direction really quickly.

Ashwini Agarwal: And how long does it take to get this denotification?

Vinod Rohira: Denotification if it is independent building which you can isolate, it takes between six and nine months.

Ashwini Agarwal: Okay, but it is more tricky for clusters?

Vinod Rohira: Sorry?

Ashwini Agarwal: For clusters, it will be more tricky?

Vinod Rohira: For clusters, there is a new guideline that they are proposing, which is expected to allow for coexistence. That will make it even easier, then you do not necessarily need to carve out buildings. Because there is a lot of visibility, they want to create for long term occupancy of the SEZ parks across of India. They are cognitive of that fact, and they want to come back with a policy, which helps everyone.

Ashwini Agarwal: Okay, and how much space is vacant in those clusters, which would benefit from this new proposal assuming it were to come through?

Vinod Rohira: Within our portfolio?

Ashwini Agarwal: Yes.

Vinod Rohira: **Approximately** 1.5 odd million square feet.

Ashwini Agarwal: Okay, and that is already part of the vacant area of 16% roughly?

Vinod Rohira: That is right.

Ashwini Agarwal: The second question is that you know, if I read the note number one, there is Rs. 1,345 crores of ongoing projects expenditure that is balanced CAPEX. Could you break it down as to which projects are these?

Preeti Chheda: We have one under construction project in Kharadi and another project in Aioli West. And then of course, just to take this forward, we have upgrade expenditure, which will happen, we are already upgrading two of our parks in the major work.

Ashwini Agarwal: Sorry to interrupt, but this does not include the Madhapur 1.1 redevelopment?

Preeti Chheda: So, the entire INR 17,900 million breakup of which is mentioned in note one also includes the Madhapur redevelopment.

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

Manish Agrawal: So, my first question is on the breakup of lease expiry profile slide. So, we have 1.3 million square feet, which is getting expired in nine months FY22. So out of this, how much is expected to be released?

Vinod Rohira: So, I just mentioned previously on the call out of the from an annual visibility of 1.6 million that was coming for scheduled terminations and expiry, we have visibility for at least 1.1 million to 1.2 million out of that.

Manish Agrawal: So broadly 75% on 1.3 million out of that is what we can think of?

Vinod Rohira: Out of 1.6 million.

Manish Agrawal: The slide mentions 1.3 million. This is nine months FY22?

Vinod Rohira: Yes. So, I was telling you for the 12-month period cumulatively.

Manish Agrawal: Okay sure. And secondly on the CAPEX plan for this year and the next year, how much will we spent in individual year?

Preeti Chheda: So, this year for the balance nine months, we would be spending approximately Rs. 500 crores on the existing projects and some of the newer projects. We will have a slightly higher number for the next year depending on when these projects get completed and when the approval for a redevelopment etc. comes in.

Manish Agrawal: And Madhapur development will take 27 to 30 months starting from June?

Preeti Chheda: No, so the starting will be in the second half of this financial year depending on when we get the approvals, and we expect completion sometime in FY25 subject to approvals.

Manish Agrawal: And we have started work on the data center part?

Preeti Chheda: Vinod, do you want to take that?

Vinod Rohira: We are waiting to start we have started the early groundworks.

Manish Agrawal: And how much will be the total spend on that data center?

Preeti Chheda: So that will be somewhere around in terms of the construction costs should be somewhere around Rs. 300 crores to Rs. 350 crores.

Manish Agrawal: And that is included in this CAPEX figures in the slide, the Rs. 1,700 crores figure?

Preeti Chheda: Are you are talking about the Rs. 17,900 million of CAPEX?

Manish Agrawal: Yes correct.

Preeti Chheda: Yes, it does.

Moderator: Thank you. The next question is from the line of Anirudh Jain, an individual investor. Please go ahead.

Anirudh Jain: I have two questions. This one is for Preeti. So, first, I wanted to ask what determines the split between, the dividend, the principal repayment, and the interest from a restructure perspective? And the second question is from slide number 19, in the NDCF build up. So, there are two-line items. One is for working capital changes and other adjustments and one is CAPEX including capitalization interest. I mean, if you could please explain, the difference between these two-line items?

Preeti Chheda: So, let me take the first one. So, you talked about three components, which is return of capital, dividend, and interest. In our case, we do not have return of capital as of now. All the distribution that we are making currently approximately 90% of that is dividend and approximately 10% of that is interest. Now, if I have to just generally talk about this point, then of course, the nature of distribution would depend on the capital structure of the SPVs as well as the REIT. So, it depends upon how much is the equity, how much is the debt, what is the profitability of every SPV.

So, there are numerous factors which come to play in determining what will be the nature of distribution. So therefore, it can change over a period depending on what is the capital structure. But in our case, since some of these SPVs in the portfolio, a majority SPVs which are in existence for a very long period, and a lot of debt is already repaid.

So, the profit of those SPVs is higher and therefore, we have been able to pull out more dividends. And that is the reason in our case you would see that 90% distribution is by way of dividends and about 10% is by way of interest.

So, that was on your first question. The second question was what is CAPEX and what is working capital. The CAPEX is nothing but the construction cost which we are incurring on our projects. Working capital has a couple of components. So, one is as I had mentioned, the fit outs in some of the cases the tenants require us to do the fit outs for them. For our practical purpose, we treat that also as CAPEX for us.

But from an accounting perspective that gets classified as working capital and that is the reason you will see that finding place under the head working capital, plus as I had mentioned earlier in the call, given that this is the first quarter of the financial year, there are certain expenses which we have prepaid for the entire year.

And that is the reason you will see the working capital on the higher side. So, working capital essentially has fit outs as certain prepaid expenses, normal creditor outgoes. So those are generally the kind of expenses which are sitting on working capital and CAPEX is purely construction costs for the project. I hope that answers?

Anirudh Jain: Thank you. Just one last clarification. Is there any way to model I mean, do you expect this 9% to 8% to be fairly stable going forward? Or is there any way to model this or do you expect a change?

Preeti Chheda: So, as I said, this is what we have guided through for our projection period. And then as I said, as we go along, it depends on the capital structure of the SPVs and the REITs. For at least during the projection period, this is what we believe will be the composition.

Moderator: Thank you. The next question is from the line of Satinder Singh Bedi from Eon Infotech Limited. Please go ahead.

Satinder Singh Bedi: So, this question is for Preeti and again it goes back to the NDCF build up on slide 19. So Preeti, you had this net debt drawdown of Rs. 256 crores for the quarter and if we add this CAPEX and these working capital, this becomes about Rs. 192 crores So, that still leaves about Rs. 64 crores of debt drawdown which has not been applied either for CAPEX or working capital. So, whereas this Rs. 64 crores been applied?

Preeti Chheda: Yes. So, if you just look at the NDCF construct just below the net debt line, you also have three other expenditure lines, which are the interest cost, then we have in the Hyderabad entities, we have the Telangana Government undertaking also which is one of the shareholders of that SPV holding 11%. So, the dividend which goes to them is subject to dividend distribution tax in their hands, not for the REIT. And then of course, you have certain expenses at the REIT level. So, the balance 60 is accounted that way. So, if you add the other three items we get to that number.

Satinder Singh Bedi: But Preeti, that 11% of Telangana State is anyway not our income. So that is not REIT systems anyways because we have owners to the extent of 89% in those three accounts?

Preeti Chheda: Correct.

Satinder Singh Bedi: So, my point is okay, can you please confirm that all the debt drawdowns have gone towards CAPEX and none of the debt has been used for the distribution payment and the distribution payment is a pass through from the actual earnings?

Preeti Chheda: So, let me put it this way. So, what happens is I just explained earlier some of the working capital changes and cash flows are based on timing as well. So, one example which I had given was, we were expecting Rs. 35 crores of tax refunds in this quarter, but we received it in the previous quarter itself. So, to that extent, what happens is when they receive the cash flows earlier, we pay down the debt. And in this quarter when we actually have to make distribution, we draw that debt back because there is no point keeping that money in our bank account.

So, we pay down the debt temporarily and then draw the debt again. So therefore, these timing cashflow issues are bound to happen. Similarly, as I said, you know, today we have certain prepaid expenses, which we are paying in advance for the rest of the year, and then you may not have those expenses coming in the next quarters.

So, the debt, which you are seeing here is also a function of certain cash flows having come in earlier, because of which the debt repayment has happened earlier, and new debt is drawn again, this quarter. And as I said earlier, some of this was already factored, even at the time of IPO. So that is broadly how the NDCF has been working.

Satinder Singh Bedi: And one small query regarding the page 118 of your quarterly deck, this is not the presentation, this is the total bulk of your documents. You talk about 22% a big landowner in a JDA. What is that 22% of what project is that?

Preeti Chheda: Okay, so that is our Chennai project, which is Commerzone, Pour. We have 100% ownership of the SPV and there is no other shareholder. But in the overall project, in terms of the area, 22% of that area is going to the landowner in lieu of the land, which he contributed for the project.

Moderator: Thank you. As there are no further questions, ladies and gentlemen, on behalf of Mindspace Business Parks REIT, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.