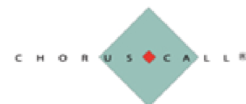
"Mindspace Business Parks REIT Q1-FY24 Earnings Conference Call"

July 26, 2023



MANAGEMENT: **MR. VINOD ROHIRA – CEO,**
MS. PREETI CHHEDA – CFO
MR. KEDAR KULKARNI – INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Mindspace Business Parks REIT's Earnings Conference Call for Financial Results for the Quarter Ended June 30th, 2023.

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 over to Mr. Kedar Kulkarni. Thank you and over to you, sir.

Kedar Kulkarni: Good afternoon, everyone and thank you for joining this first quarter financial year 2024 earnings call of 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.

I would now like to welcome our CEO Vinod Rohira and our CFO Preeti Chheda. They will first walk you through the business update and the financial performance during the quarter. We will then open the call to "Q&A." I now hand over the call to Vinod. Over to you Vinod.

Vinod Rohira: Good afternoon everyone. Thank you for joining Mindspace REIT's earnings call for Q1 FY24. Continuing the steady performance our committed occupancy now stands at c.88.8%. The non-SEZ demand continues to remain strong with over 96% of our non-SEZ portfolio is now leased. Our assets in Pune, Chennai and Malad and BKC – Mumbai are over 98% leased while our asset in Madhapur is also 96% leased. Anticipating this scenario, we have strategically brought forward non-SEZ supply in our key markets of Pune and Hyderabad with 2.5 million square feet under-construction.

During the quarter, we have leased c.0.4 msf of which c.0.2 msf was on account of re-leasing and c.0.2 msf was account of new and vacant area leasing. We have achieved a re-leasing spread of 10.1%.

Revenue growth of our Portfolio continues to be led by core portfolio growth. In Q1 FY24, Revenue from Operations grew by 14.1% YoY to INR 5,604 Mn and the Net Operating Income grew by 13.8% to INR 4,570 Mn.

As envisaged, India like its Asian peers, has seen a strong preference for work from office and the office footprint continues to grow, unlike the West. This trend augurs well for office demand in India and would lead to rise in physical occupancies from the current levels. Acceptance

towards returning to office further aids the attractiveness of India as a global destination for GCCs / GICs etc.

In addition, the normalisation of attrition rates and compensation across the technology sector has resulted into favorable employer-employee dynamics which is aiding a faster return to office. Majority of the tech companies continue to announce return-to-work plans and the number of days employees are expected to be in office, is rising.

Occupiers and employees are both becoming selective about where they want to work. This is leading to opportunities for creators of Grade A aspirational ecosystems like us. We are developing ecosystems that aid work-life balance and promote employee wellbeing and safety. Our parks have been upgraded to offer easy navigation, hassle-free connectivity to transport nodes, and avenues for recreation and entertainment. Occupiers are able to distinctly identify the value added by institutionally managed spaces. A very strong endorsement of our value add is demonstrated by the fact that over 62% of the expansion space leased since FY21 has been leased to existing tenants.

We value our occupiers and understand the importance of establishing a strong connection with their employees. During the quarter, we have conducted multiple tenant engagement activities across our parks, like food festivals, music & sports events along with various recreation and entertainment activities. These events attracted massive participation from over 40,000 employees across our parks.

In addition to demand from GCCs and GICs, large domestic institutions have begun to desire institutionally managed Grade A ecosystems for their growth requirements. This is a very encouraging trend. As the Indian economy moves in the direction of becoming a USD 5 trillion economy with a focus on indigenization, this demand from domestics would fuel the growth of Grade A ecosystems in the coming years.

At Mindspace, we take ownership of creating sustainable workspaces that inspire excellence. To this end, we have adopted a robust ESG strategy, with initiatives that we are implementing across our portfolio. Our approach goes beyond our operations as we partner with our tenants in reducing our combined carbon footprint. This enables us to create workspaces that foster harmony with the external environment and provide a healthy eco-system. Over 95% of our portfolio is now LEED or IGBC certified with a rating of Platinum or Gold. We have begun our journey towards Green Leasing as we actively engage with occupiers to include ESG clauses in our lease agreements.

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

- We have leased c. 0.4 msf during the quarter of which c.0.2 msf was on account of re-leasing and the remaining was on account of new and vacant area leasing

- Re-leasing spread stood of 10.1%
- The average rent achieved for the area leased during the quarter was INR 68 psf per month
- The committed occupancy of our portfolio stood at c.88.8%
- The occupancy of our portfolio stood at c.87% recording a growth of over 480 bps YoY and 355 bps QoQ
- The in-place rent of our portfolio grew by 7.4% YoY to INR 66.2 psf per month
- Our revenue from operations for the quarter grew by c.14.1% Year-on-Year to INR 5,604 million
- We continue to demonstrate steady growth in our Net Operating Income over the past few quarters. Our NOI for the quarter grew by c.13.8% Year-on-Year to INR 4,570 million
- Our distributions for the quarter stood at INR 2,846 Mn or INR 4.8 per unit
- The physical occupancy at our parks stood over c.57% at the end of June. The physical occupancy at our parks at BKC and Malad was c.90%. At Kharadi, the physical occupancy was above 78%. At Porur, the physical occupancy was above 65%.

We remain hopeful that the Government will soon bring in suitable amendments to the current SEZ framework to allow floor-wise denotification. Demand for Non-SEZ remains strong in our micro-markets which is reflected in the occupancy of these spaces in the Portfolio. This is a testament of the inherent strength of the micro-markets and our asset quality. We believe this regulatory change would go a long way in channeling the non-SEZ demand in our markets into the vacant SEZ spaces in our portfolio. With this backdrop, I hand the call over to Preeti.

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

I'm happy to present our financial performance for the first quarter of the financial year 2024.

We closed the first quarter with Revenue from Operations of INR 5.6 billion registering a growth of c.14.1% YoY. Our Net Operating Income stood at approximately INR 4.6 billion, recording a strong c.13.8% YoY growth. Excluding Facility Management Business and Distribution Licensee Business, the NOI Margin stood at 87%.

We announced a distribution of approximately INR 2.85 billion i.e., INR 4.80 per unit for the quarter. The distribution comprises approximately 90.2% i.e., INR 4.33 per unit of dividend, which is not subject to tax in the hands of unitholders, approximately 9.6% i.e., INR 0.46 per unit of interest and approximately 0.2% of other income.

Our cost of debt stood at 7.7% at the end of Q1 FY24. We continue to follow the strategy of optimizing the mix of fixed and variable cost debt to reduce our overall interest costs. During the quarter we raised INR 5 billion through fixed coupon NCD at the REIT level. The issuance carried a fixed coupon of 7.7% and was used to repay the variable cost NCD at SPV level, helping us achieve a 100 bps saving in interest cost on this borrowing. We expect the interest

rates to remain stable in the near term which should help us keep our interest cost around these levels during FY24.

While REITs are gaining traction amongst investors more particularly domestic investors, there is still a need to improve awareness amongst retail investors. We are working with other REIT Participants and Regulators towards this and also for the growth of this product.

Mindspace REIT has continued to see its domestic investor base rise quarter on quarter. We added over 3,000 new unitholders during the quarter, taking the total unitholder count to over 55,000.

To conclude, we expect NOI growth for this financial year to be driven by rent commencement on areas which are committed but not operational yet, leasing of new and vacant areas and contractual escalations. SEZ Policy changes when implemented should help leasing of the SEZ spaces in the portfolio which should add to the future NOI growth. With this, I request the operator to now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Mr. Kunal from Bank of America. Please go ahead.

Kunal: Sure. Thank you. Couple of questions from me. The first one is that the increase in exits for FY24, would you still say that this is mostly the periodic recalibrations that your tenants do or is it a different driver. And the follow up there is that good amount of these exits seem to be coming in your Madhapur asset? Would you think that re-leasing here is much easier than maybe in other parts of your portfolio because one generally here that Madhapur market is quite tight in terms of supply?

Vinod Rohira: Hi, Kunal, yes, absolutely. I think this is part and parcel of business. A lot of this keeps coming through. Obviously, there's a lot of highlight when there's a lot of uncertainty when you're looking at the Western markets etc., you start to believe that physical occupancies are not there, offices are going to get surrendered. We don't see this at all as anything different from part and parcel of business. And you're right, Hyderabad Grade-A is very tight supply and the demand for 50,000-100,000 square feet is very strong. So, we are very confident of leasing this and happy we're getting churn because we have no supply for the next 18 months. We have very small supply left which is vacant. We're 96% leased in Madhapur.

Kunal: Got that, thanks. And the second question is directionally is the kind of leasing we've seen in Q1 is what we would expect for rest of the year, or do you think that as we go into later part of the year, the momentum around leasing could also change?

Vinod Rohira: I think for the next 2 quarters, we will continue to see stable demand as we are seeing right now. But 1st Quarter calendar year, next year, you might see grassroots of larger demand coming on the table for discussion, which I think will be the start of the next cycle for growth.

Kunal: And then just the last one is just a quick hygiene check. What could be the rationale behind a smallish deal like 0.25 million square feet for a developer? Is this an operational convenience or does it clear the decks or something else? Just wondering why such a small deal? I was wondering that if two floors were left out earlier, right, there must have been a business reason behind it. So, if that's sort of coming to the REIT now?

Vinod Rohira: You mean acquisition of space?

Kunal: Correct, exactly. The two floors that you have indicated in Porur asset?

Vinod Rohira: For us, it's strategic because we want to own the full asset and we want to control the asset. We don't like a breakup in terms of asset, which is why we are very keen to look at this asset.

Moderator: Thank you. Our next question is from the line of Mr. Vivek from DSP Mutual. Please go ahead.

Vivek: Good afternoon. There seems to be a clear dichotomy between SEZ and non-SEZ zones, so my question was what percentage of the SEZ leases are coming up for expiry or how many million square feet in which we want to answer it and how confident are you of re-leasing those?

Vinod Rohira: So, different markets are behaving differently. The Mumbai and Pune markets don't seem to be seeing too much demand for SEZ footprint, but a very high demand for non-SEZ footprint. And BFSI primarily is the client, so they are looking at more non-SEZ spaces. While in Hyderabad, we are seeing more demand for SEZ, whatever vacancies are coming are actually getting leased out. So, we've continued to see leasing happen in Hyderabad for example, for whatever space has got vacant in the SEZ footprint and we're continuing to see that trend going forward.

Vivek: Could you just then clarify on Mumbai and Pune alone in terms of, what is the area that you expect to come up for re-leasing and?

Vinod Rohira: So, for us in Pune, we have 99-point odd percent that will be fully leased out. Cumulative portfolio is 99% leased out and we almost have no SEZ vacancy. In Mumbai in the Airoli Park, we have vacancy in the SEZ. But fortunately for us we're able to denotify individual buildings that are vacant. And that gives us pipeline for leasing, and we are seeing demand for those assets. So, the minute we get the relevant building denotified, we'll be able to lease it quickly and by then hopefully we will be having the SEZ partial denotification formula in place which we hope to kind of see in the next couple of months latest. And then we will be able to bring that supply in as well for leasing for non-SEZ.

Moderator: Thank you. Our next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Just couple of questions from my side. So, at a portfolio level, when I'm referring to the committed occupancy, do we expect this number to be higher than what it is by March 24. I'm just asking directionally. I'm not pinning you on the number, but just directionally wanted to understand?

Vinod Rohira: We are hoping for that as well.

Adhidev Chattopadhyay: But is it contingent on this SEZ denotification coming in lot of your whatever has built into your business plan?

Vinod Rohira: Some part of it is, yes.

Adhidev Chattopadhyay: The second question is on our NDCF distribution. I know we don't give a formal guidance, but on the current run rate and the expected scale up between the actual occupancy and the committed occupancy, should we expect a higher distribution in the second half of this year?

Preeti Chheda: Hi Adhidev, Preeti here. So, you know as we had mentioned last time as well that our endeavor in this financial year is to do away with any form of debt support to the extent, we are able to. So, I think that will be our primary focus. So, the incremental revenue which you see coming because of the rent commencing on some of these areas. We would rather use that to taper off the debt support.

Adhidev Chattopadhyay: So, assuming a flattish sort of distribution year-on-year, is a reasonable assumption on that piece?

Preeti Chheda: I won't be able to give a guidance, but at least I would say we would try to retain what we are giving today and if there is any upside which comes along our way, then we can look at more.

Adhidev Chattopadhyay: Sure. And the final question is on the hiring of GCCs. There have been some media reports that the GCC hiring seems to have again picked up. Initial signs are being seen. So, in the context of third-party IT service providers versus GCCs, could you give us over the medium term how are you seeing the pickup based on discussions with tenant so far?

Vinod Rohira: So, the space pickup will kind of get translated, I think 2 or 3 quarters from today, but yes, you're right hiring has seen pickup in these quarters.

Moderator: Thank you. Our next question is from the line of Mohit Agrawal from IIFL. Please go ahead.

Mohit Agrawal: My first question is, of the completed area of 25.9 million square feet, how much is the SEZ space in total and what will be the occupancy there or vacancy levels?

Vinod Rohira: So, we are about 2 million odd vacant in the SEZ footprint. Cumulatively, I think anywhere between 83% to 84% of our SEZ is occupied and of the completed footprint the ratio would be 55:45, SEZ 55 and non-SEZ 45.

Mohit Agrawal: Vinod, you mentioned just now that in Airoli, you are de-notifying building. So, right now as we speak, how much of the space would be under this process of denotification?

Vinod Rohira: 400,000 square feet.

Mohit Agrawal: 400,000 square feet. And when do you expect this to come to be available for leasing?

Vinod Rohira: I think by the end of next quarter, we should have that building hopefully de-notified so that we can start marketing in the subsequent quarters.

Mohit Agrawal: Okay, understood. Preeti, my next question is so two comments, one is about the NOI growth you mentioned. So, in your presentation you mentioned that B9, B10 has started contributing. So, could you quantify what kind of NOI addition we can see in this year for the remaining part for the year, if you could quantify that? And the second question is you also, I think I heard that you mentioned that you expect the interest cost to remain at these levels, is that correct? And in that case, do we see that the distribution growth could happen because if NOI goes up and interest cost remains the same, I am just trying to link the two?

Preeti Chheda: Yes, thanks Mohit for this question. So, to answer your first question, while I can't categorically give you how much the NOI would grow by, but since we are having a decent amount of area which is going to start generating rent, we should definitely see an upside on the NOI, but not all of this NOI is going to translate through NDCF approach because while the interest cost will remain at these levels for the year to go, but versus the last year, we are definitely seeing the interest cost having gone up. So, that's going to eat up some part of it. And as I had said earlier in the day that we would be taking this opportunity to minimize our debt support and therefore to that extent, we'll be using those extra revenue numbers to normalize and make sure that at least we are able to maintain and then as I said, if we have positive upsides that come along, then we could look at NDCF growth.

Mohit Agrawal: Understood. And my last question is on the debt numbers, so while your net debt has gone up by 250 odd crores, which is exactly the CAPEX number, the gross debt has moved up by about 600 crores. So, anything, any particular reason for that?

Preeti Chheda: No. So, you will just need to look at the net debt numbers because we are almost close to 600 crore which is lying in liquid instruments like fixed deposits or so. So, we had some unwinding

which we did between the SPVs, the borrowings between SPVs because of which towards the end of the quarter we landed up with the surplus funds in the SPVs too which got the money back. So, those will be deployed in the quarters to come. But that's why you are seeing the growth rate being higher. But if you look at the net debt numbers, then the growth in the debt is equivalent to the CAPEX.

Mohit Agrawal: So, this will normalize going forward, right?

Preeti Chheda: Yes. Just a onetime unwinding which we did.

Moderator: Thank you. Our next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: So, the first question is that there was a slight decline in occupancy in the current quarter. So, what would be the reason for that?

Vinod Rohira: It's part and parcel of business. So, obviously we will look at it from a fraction and a percentage point of view. To us, areas are coming back, and we are able to get mark to market opportunity if it is in markets where there is demand and there is no real supply for Grade-A. We are happy to actually see the churn come through.

Pradyumna Choudhary: Like my concern comes more from the broader global slowdown they're talking about and seeing like generally now most of the IT companies have also started reporting significant slowdown. So, is there any clear visible signs of a slowdown affecting us in general, are we getting requests from our clients for the Rent Cuts?

Vinod Rohira: No, not at all. I don't see this as an indicator of slowdown for India at all.

Pradyumna Choudhary: And no issue with regards to the demand for our space as such?

Vinod Rohira: No. For Grade-A spaces you will continue to see demand because if you want to attract talent and you want to be in the right quadrant of space, then these are the very few Grade-A asset opportunities which quality tenants that we cater to are looking for. And for that, there is always a need for quality space which is getting filled up by whatever vacancies come through in the non-SEZ footprint.

Pradyumna Choudhary: And any particular sector where we are seeing strong demand from like I think last time you mentioned third party IT service providers. So, is it the same segment or something else?

Vinod Rohira: While BFSI and technology footprint is growing, what is interesting is the need for domestic demand of BFSI is actually starting to take a strong participation in Grade-A assets, so we are seeing domestic India's growth represented in Grade-A occupancy. And that, I think will be an

increasing trend, which you will continue to see over the years to come, which was earlier not really visible because you were catering to the global tech footprint alone and 90% of India was really catering to that. But I think very strong domestic growth is starting to become visible in Grade-A spaces.

Moderator: Thank you. Our next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Just one question, since you have had experience of converting an SEZ space into non-SEZ, how much time it's generally taking for this denotification. And while I understand we are doing it for old towers, if we do it like by floor by floor, would it be any different than the usual denotification process in terms of timelines?

Vinod Rohira: So, generally a building to de-notify would take anywhere between 4 to 6 months, but once this rule comes into place, I think it will be much faster because once they set a process in place in a few months, we may be able to get unit wise denotification and you will do it in reasonable chunks of units. So, you don't have to wait for a single floor or two floors. You might do a cluster of floors together to de-notify so that you're taking care of your pipeline of demand.

Pritesh Sheth: So, that's helpful. Any timeline you have in mind of denotification amendment coming to, the sort of discussions that you are having in the month?

Vinod Rohira: We are hopeful that by the end of this current quarter, we should have clarity on that and then start moving forward towards actually processing the denotification applications.

Moderator: Thank you. Our next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Just again on denotification side, right, I mean the part by part or floor by floor denotification has been in the fray for some time now. I mean, I'm sure industry is lobbying for it. Just wanted to understand like what's holding back here like, I mean what is causing the whole process to get like delayed because as such industry is not really asking for any tax benefits here, right. And it's a pretty straightforward amendment to be done in the SEZ Act. So, what's causing the delay?

Vinod Rohira: Actually, there were multiple stakeholders, and each stakeholder has had their own understanding and agenda. Now between finance and revenue, both have understood that this is cumulatively a benefit where there is no advantage being passed on to the developer or the SEZ Park holder, it's actually initiating employment. It will get occupancies; you will get indirect employment and you will get revenue in terms of taxes etc. So, all departments are completely aligned. They are just making sure that there are no hiccups in the future. So, they're realigning the rules which will allow this to become an enabler for debonding denotification; however, you might phrase it on a floor-by-floor basis. So, because for example infrastructure, support services, all of these in an SEZ were catering to an SEZ. So, they have made sure now they have

covered all of those aspects also. So, you don't have any other hiccups. So, I think time is much longer taken than what it should have. But yes, I think it's moving in the right end.

Kunal Lakhan: Sure. Just like kind of picking your brain on the same topic like are there certain tax swaps you know the custom duties and excise benefits that we enjoyed would also need to be returned to the government back. Would that be a material amount for developers?

Vinod Rohira: No, considering the cost of vacancy, it doesn't stack up. It's fine, yes.

Kunal Lakhan: Correct. And also, lastly again on the denotification bit, would there be any logistic hassles in terms of like de-notifying certain floors in an SEZ because when you look at the whole compliance burden, right, the whole compliance logistics that one needs to follow, the ingress and egress of people and materials and also do you think partial denotification can be successful in terms of managing the logistics?

Vinod Rohira: It certainly can be, actually, that's exactly the right questions, Kunal, which is the reason why they have taken longer than usual to close this because they want to stitch up all of those things. But on a physicality of asset basis, we don't see a challenge.

Kunal Lakhan: Sure. Lastly on the demand, you did mention that the larger guys have now started to become a little more active. Can you give a little more color on this like in terms of what is driving this positive sentiment now? And you mentioned that in Q1 of next calendar year, you will see this demand getting converted right? So, can you just elaborate a little on that?

Vinod Rohira: So, the way we see is that the large occupiers have started to rehire and most of their employees who are working from home have in some shape or form being asked to start coming back to the office. So, the office footprint is becoming active. And that office footprint has not catered to in the last three years, four years for any growth including the growth you saw in the spike of hiring 12 months ago that has not got translated to space. So, as they are insisting on employers asking their employees to come back, they are figuring out what they need to do with their footprint and the questions about consolidation, immediate need for space for growth within the vicinity, scaling up contiguity, all of those aspects are beginning to see larger occupiers start the discussions around that subject. So, that is the reason why we believe in the first calendar year, first quarter, calendar year, next year you will start seeing more interest for those occupiers to come and look for space.

Kunal Lakhan: Sure, and this trend in pick up in physical attendance, are you seeing that both in GCCs as well as IT players or it is more prominent in GCC?

Vinod Rohira: So, it was more prominent in fact earlier in the third-party service providers and the smaller occupiers, but in this last quarter you are seeing a spike in the GCC physical occupancies as well. And they have started to take the call asking people to get back to work.

Kunal Lakhan: So, the physical attendance number would be very different say for GCC and third-party service providers or they are broadly similar?

Vinod Rohira: It used to be now it's kind of bundling in the same basket and then different markets are working differently. So, if you see Mumbai, it's almost 80%-90% in most places, Pune, we are at 70%-odd, Chennai we are 75%, Hyderabad we have 52%-53% moving up towards 58%. So, you're seeing occupancies move in the positive direction and you must remember that in the pre COVID era when we said full occupancy it meant 80% to 83% because you had 10% absenteeism and there was some bench strength left for growth. So, there was never 100% footprint occupancy ever, to us 100% is really when you reach 80%, 85% you are100%.

Kunal Lakhan: Correct which is 57% currently?

Vinod Rohira: Which is 57% across Parks average.

Moderator: Thank you. Our next question is from the line of Murtuza Arsiwalla from Kotak. Please go ahead.

Murtuza Arsiwalla: Just few questions I am just to clarify again the see the non-SEZ piece occupancy stands at about 96%, is that correct and in that sense, what would be the SEZ vacancy today, and if I were to come to 2.9 approximately being vacant areas, how were that breakup between SEZ and non-SEZ that's just the first question?

Vinod Rohira: I think we have about close to about 2.3-odd million will be SEZ and about 400k to 600k will be non-SEZ.

Murtuza Arsiwalla: And second question I want to ask is when I look at the trend of the mark-to-market that you have been sort of putting in your presentation over the quarters between 4Q 22 and one 1Q 24, it's gone from high double digits or like 15%, 16% down to about 7%. Obviously, it's a good thing that your in-place has moved up, but have market rentals for the portfolio largely being stagnant or it's something that we need to, or the market needs to recalibrate?

Vinod Rohira: No, I wouldn't say stagnant. I think whatever demand is coming for Grade-A, they are paying you market rents and your portfolio now has reached. We still have a mark-to-market opportunity going up, but obviously there was a much larger opportunity when the churn was from the original lease that expired or the sudden vacancies. We witnessed 18 months, 24 months ago those spaces we were highly opportunistic to be able to get a much higher pop in the rent when we re-lease them.

Murtuza Arsiwalla: So, would it be fair that at least in the near term, that pop would be more limited from your hereon?

Vinod Rohira: You know, the way I see it is if you were to look at it slightly more largely, there is no new supply coming in most micro markets of the category of Grade-A that clients would be looking for. With inflation densities, the time of delivery of those assets has also gone in longer. The minute you start seeing demand stabilizes and start rising. There will be a frantic rush towards Grade-A and I don't see too much vacancy or available space in Grade-A, which is certainly going to see a rise in rentals for the prime assets in prime markets. You will certainly see that.

Moderator: Thank you. Our next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Just another thing which previously you answered to one of the participants was that in Mumbai and Pune, we are not seeing good demand for SEZ whereas in Hyderabad the demand for SEZ is also quite strong. So, what would explain this difference across areas?

Vinod Rohira: So, BFSIs are the primary large space takers that that have shown interest in real estate for commercial real estate in the last 6 months, 9 months and those guys for some reason prefer non-SEZ. But the tech guys are still looking at SEZ. So, we are seeing a different combination of tenants in Hyderabad looking at SEZ not that it's the same volume and scale of what non-SEZ demand is, but you're certainly seeing demand in the SEZ space in markets or Hyderabad, but you're not seeing them in Pune, in Mumbai to the same degree there is some demand, but it's proportionately very small compared to non-SEZ demand.

Pradyumna Choudhary: And any particular reason why BFSI guys prefer non-SEZ and why tech guys prefer SEZ in particular?

Vinod Rohira: No, it's more about guarding their information protocols and the restrictions that SEZ would bring in terms of data sharing and all of those aspects, they don't want that. So, BFSI has always mostly stayed out of SEZ.

Moderator: Thank you. Our next question is from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: So, just a couple of quick questions Preeti ma'am, you were saying that you would like to reduce the debt support for the payout. Now if I see the current quarter's NDCF, the CAPEX is slightly higher than the debt that we have drawn down. So, are we already in this situation or you would like to even make this number go towards zero or something like that on the debt drawdown?

Preeti Chheda: So, today obviously this time we were a little surplus, but what happens is your working capital movement keeps changing quarter-on-quarter. So, I think you should be looking at a full year picture as it unfolds going forward. Our endeavor is to minimize the debt support this year and what you're seeing this quarter is also moving in that direction. But as I said, it's not necessary that you will see the same surplus situation in the next quarter also, it all depends on the working capital movement, but over the year endeavor will be to minimize that.

Abhinav Sinha: So, for the year, for example, if the CAPEX is say 1,000 crores, then debt drawdown should also be 1,000 crores, so assuming working capital is neutral, that's right?

Preeti Chheda: Yes. So, that's what our endeavor would be to have our CAPEX and debt broadly aligned. And this quarter, obviously, as you are seeing, we've not taken any debt support, rather we are in a surplus situation.

Abhinav Sinha: And second quick one on the acquisition, so what is the timeline for that?

Vinod Rohira: In the next few months.

Abhinav Sinha: So, we should conclude in the current fiscal basically?

Vinod Rohira: Yes, that's right.

Abhinav Sinha: And how much area does it give us, I mean we have the 0.9 million they are built out I thought?

Vinod Rohira: 200,000-odd square feet.

Moderator: Thank you. Our next question is from the line of Tanvir Sure, who's an investor. Please go ahead.

Tanvir Sure: So, my first question is regarding the revenue from operations in the MMR region, the square BKC it's remained kind of flattish. So, just wanted to understand why, I mean, why is it not, like the other the Airoli and Malad that has done much higher.

Vinod Rohira: So, this is a single tenant occupied building lease that is the reason why I said there is no variable areas for variable leasing, it was the one deal done with one client so that rent continues to come.

Tanvir Sure: And my second question is around the vacancy trend that you guys have shown in your presentation, the only two regions that are showing an uptake in vacancy is Pune and Hyderabad if I'm not mistaken. Is that like the regular business churn that you are saying, or I mean any particular reason for that?

Vinod Rohira: No, absolutely not. Regular business chain and it's like 1,10,000-1,20,000 square feet on a 4 million portfolio in Pune. So, I count that as a rounding number, but in any case, we are seeing demand for that space.

Tanvir Sure: And the last question actually was Preeti also mentioned this regarding awareness about REIT as a product. So, I'm an investor, I look at stock prices, of course, that is not your focus, but I've seen lot of pressure currently for REIT as a product, I mean everything on the ground is looking hunky-dory it's all looking good. What do you feel like why is there so much pressure like we

are right now, almost at 19% or 18% discount to the NAV, so any thought you can maybe throw some light on it as to what you think?

Vinod Rohira: It's like this, obviously under the larger horizon of the western part of the world seeing lots of vacancies and people not coming back to work, that's kind of haunting us in our mindset to assume that the same story will pan out for India. But that's truly not the case. And it's shown to be demonstrated in India and the other parts of Asia which are actually robustly back on the footprint of office. So, that is playing out a lot and obviously there was some hiccups on the legislative piece which kind of disrupted the understanding on tax implications etcetera during the time of the budget, which kind of created some confusion.

We are behind that right now and if you can see a disproportionate amount of time on this call was spent on SEZ. So, all of those things are kind of distracting from the core, and we continue to see a stable growing economy for India with adequate demand for Grade-A office driven by tech and domestic footprint. So, if you look at the larger picture, I think that's what we believe will. Continue to pan out.

Tanvir Sure: I mean so what are the kind of efforts that you guys are taking from your end to promote the REITs and REIT as a product for you mainly?

Preeti Chheda: We are as I said working with all the other REIT participants as well as regulators, you know, to roll out programs to have a better reach to the retail investors, some of them of course are well aware of this product, but there's a lot of them who still need to be educated about the product. So, I think collectively we are working towards rolling out quite a few programs in the year to come which would help improving the knowledge of this instrument. And there are other things also which we can jointly work with the regulators and see what are the other ways and means and by which we can help the growth of these instruments. So, I think it's a collective effort and we will be doing a lot of it as a year goes.

Vinod Rohira: I think you know there was an effort in the middle that REIT and INVITs should be a part of the frontline indices as well probably that I don't know what happened to it later on the whole news just fizzled out, but if you could push that you know that would also increase the liquidity overall for these kind of products. It would be really helpful for retail investors especially.

Preeti Chheda: NSE has made the first move forming a REIT InvIT index. So, we are hoping that in the quarter the years to come, we should be able to find a space in the mainstream indices. But as I said, it's an effort and we will be working with the regulators for this.

Moderator: Thank you. Our next question is from the line of Shrish Vaze from Moneylife Advisory Services. Please go ahead with your question.

Shrish Vaze: My first question pertains to our SEZ de-notification strategy. So, I just wanted to understand like as and when like vacancies come up in our SEZ space, so is this strategy to sort of wait for the entire building to get for to get vacant and then apply for de-notification or are you also looking at leasing vacant space in SEZ even if it fetches lower rent?

Vinod Rohira: So, it will be a combination of everything. First, primarily we are hopeful that the partial de-notification will come through really quickly and that then solves all of these questions. Having said that, in some of our Parks, most of our buildings are single occupier and are smaller in size. So, we have that opportunity in case this gets slightly more delayed, and we are seeing some vacancies, we can churn around our portfolio of occupancy within the park to unlock buildings at a time and de-notify them. So, we are watching that space as well very closely so that we can bring in more of our vacant supply in a clustered manner by de-notifying smaller blocks of buildings, each of being 350,000 - 400,000-odd square feet. Fortunately for us, a lot of our portfolios of that size, we are able to then de-notify quicker and start offering that also as part of the non-SEZ offering.

Shrish Vaze: And my second question pertains to the Pocharam property. So, this occupancy here has been constant and low for a for a while now. So, I just wanted to understand the reason behind that and like is it because of the micro market dynamics or something related to the property itself?

Vinod Rohira: It's completely to do with the micro market of that micro market and the demand dynamics in that micro market. So, fortunately in a weird way because that space now stands fully vacant in a few months, we will have the opportunity of de-notifying that block and then finding out alternative uses for that asset. So, in fact, we are happier now that it's kind of vacant we are able to apply for the de-notification and unlock that asset completely as a building and then decide what we want to do going forward.

Moderator: Thank you. Our next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: So, my first question I just continuing on one of the previous participants if I look at slide #47. where your portfolio in place rentals are Rs. 66 and in slide #10 where you have mentioned that the mark-to-market potential is around 6.5%- 7%. Is it possible to understand the breakup at a more granular level, say Mumbai region, Pune, Hyderabad and Chennai?

Vinod Rohira: So, we may not have that instantly available for you we can get someone to reach out and give you that information. But broadly, I think if you look at the portfolio, the Airoli rents are in the range of between 58 and 60 bucks. The Pune rents for the churn spaces are between 60 and 65, markets are between 75 and 80. So, when you start stacking up in some markets, you'll have a higher mark-to-market in some you may have a lower, but you will average out with these minimum and more.

Karan Khanna: As a follow up, what I'm curious to understand is if I look at the Hyderabad market where in the last six months, you've seen 5.3 million square feet supply and 18% vacancies. And last 3.5 years, the supply has continued to outpace demand. How should one think about the realistic mark-to-market potential for this market?

Vinod Rohira: I think Grade-A you will see a much higher rent spike because there is not enough Grade-A. While you will continue to see an overhang of 18% supply vacancies in the micro markets and primarily if you break this up, you have 13 odds million in the financial district where customers are not liking to go there. In Madhapur, which is the prime market, where 80% of the demand is actually shaping up in that Grade-A space is very limited. So, if you actually breakdown the micro market analysis and understand Grade-A versus cumulative supply and then Grade-A in Madhapur as a market which is preferred today compared to anything else in whole of Hyderabad. You'd probably realize that there is hardly any vacancy, and the rents might even further firm up.

Karan Khanna: And just to follow up or you know you did touch upon this point earlier during the call, but I think in the last call you mentioned that in two to four months' time you are likely to see larger ticket RFPs to circulate in the market. So, if you can highlight any trends that you're picking up in terms of the size of the RFPs, how is that today versus what it was one or two quarters back and say before COVID what were the trends that you were seeing in terms of the sizing?

Vinod Rohira: So, I mentioned at least two quarters more before we start seeing grassroots. But having said that, the demand this time around, I see will be a combination of consolidation, growth and offering a new work environment and experience to the cumulative set of employees because in the last four or five years as high as 60% and 70% of their old footprint of employees has got churned. And with people now coming back to the office, unlike earlier, which was really hiring online, and you could be wherever you wanted to be. It's a very different dynamic panning out where you want to be in locations which get your top talent where your last mile connectivity is high, where the infrastructure is very robust and you're able to offer them well-being, wellness, recreation, entertainment, all of that. So, those assets will get an exponential demand. And that's really where the game is going to change and your all of those demands, which will come in the beginning will be a combination of consolidation and some growth as well as a primarily rejigging your portfolio. So, you will see that as the first step and then you will continue to see GCC, GIC who are now actively looking at India again the minute they unfreeze CAPEX you will start seeing them asking for space, so that should begin within the calendar year, first quarter, second quarter next year.

Karan Khanna: So, and my last question, when you talk about the renewals that you're seeing, so I think post COVID we've seen a lot of discussion around de-densification by tenants because of COVID. So, is that a trend that you're seeing in terms of new or renewals of leases that you're seeing with your tenants?

Vinod Rohira: Yes, absolutely everyone that's fitting out new is working on a much lower density than what they used to be and what we're envisage is actually panning out.

Moderator: Thank you. That was the last question of our question-and-answer session. As there are no further questions on behalf of Mindspace Business Parks REIT, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.