"Mindspace Business Parks REIT - Q1 FY23 Earnings Conference Call"

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(This document has been edited for clarity wherever required)

Moderator: Good afternoon, ladies and gentlemen, and welcome to the Mindspace Business Park REIT's Earnings Conference Call for Financial Results for the Quarter-ended June 30, 2022. 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this call is being recorded. I now hand the call over to Mr. Kedar Kulkarni. Thank you. And over to you, sir.

Kedar Kulkarni: Thank you and good afternoon, everyone. Welcome to the First Quarter Financial Year 2023 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.

I would now like to welcome Vinod Rohira -- our CEO, and Preeti Chheda -- our CFO. Vinod will share the Business update, growth opportunities and his views on Macro Environment. 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: Good afternoon, welcome to Mindspace REIT's First Quarter Financial Year 2023 earnings call. Our financial results for the first quarter reflect the start of a return to normalcy and gradual return of employees to their workplaces.

We continue to see the rise in demand for institutionally owned grade A office spaces with the best asset management ecosystems. We had recorded one of the best-ever years of leasing in FY22 and the tailwinds witnessed during the previous financial year continue to grow. We recorded leasing of c.0.9 million square feet during the first quarter and committed occupancy of the portfolio jumped by c.130 bps Quarter-on-Quarter from 84.3% at the end of Q4 FY22 to 85.6% at the end of Q1 FY23. If you analyze the leasing activity, the best parks are capturing a significant share of market demand. During the quarter, Madhapur was the best performing market in the portfolio followed by Airoli West. We have highlighted on previous occasions that the vacant spaces in these parks would witness heightened traction when the demand returns and the strong leasing activity in these parks is a testament to that.

Physical occupancy is gaining critical traction

Occupiers across most segments are progressing well with their back-to-office plans. The physical occupancy in our parks has been improving each month since March. The current physical occupancy at our parks has increased from c.23% in April to over 36% in July. The trends are much stronger in Mumbai Region where average physical occupancy at our parks was c.47% for July, followed by Pune where average physical occupancy stood at c.32%, and Hyderabad at c.28%.

Demand base is becoming more widespread

During the previous financial year, we had witnessed strong demand from large occupiers who were taking up spaces to cater to their long-term back-to-office strategies and consolidation needs. This quarter, we saw demand pick up for smaller office spaces as well. We expect this trend to further accentuate as the demand recovery becomes more widespread. Fragmented vacant spaces in our parks are witnessing demand from the expansion of large occupiers as well as mid-size companies to cater to their new hiring over the past 2 years. We are seeing a greater preference for ready spaces which can be taken for fitouts on an immediate basis and this is helping us lease up the vacant spaces.

Grade A managed spaces are increasingly preferred

As highlighted over the past 2 years, grade A occupiers are gravitating towards institutionally owned office spaces with the best quality asset management practices and this trend has become profound. Occupiers today are clear about who they want to be associated with. Strata-sold assets are no longer considered to be at par with institutionally managed grade A spaces, as institutional managed grade A spaces have best-in-class asset management practices, are upgraded frequently, and adopt some of the best health, wellness and safety practices. There is a discernible shift in demand towards institutionally managed office spaces in the occupier segments that we target. Our efforts of using the downtime to upgrade our offerings, improve our asset management practices, ease navigation within our parks and create experiential asset ecosystems have helped us attract this demand.

IT companies continue to fly high

The ability of Indian services sector to deliver even during the peak of the pandemic has won it accolades globally. This coupled with the vast availability of STEM talent at lower costs has aided the entry of new GCCs/GICs into India. India had 1,430+ GCCs at the end of FY21, this count is expected to grow at a CAGR of 6%-7% to reach 1,900+ GCCs by FY25. The existing GCCs/GICs have also hired a record number of new people to widen the bouquet of services offered to their onshore counterparts.

Office aids in fostering organisational culture

As more managers and organisations realize the importance of offices in fostering teamwork, collaboration, creativity, and transmission of organisation culture and strategy from senior management down to all levels of the organisation, they are calling employees back to their base cities with a defined plan of bringing them back to desks. The return of employees to their base cities and eventually to offices is putting pressure on occupiers to hasten the office space take-up to cater to their increased headcounts.

Both these factors are providing further fillip to office demand as physical offices offer an excellent ecosystem to nurture and build the best talent.

Macro environment aiding growth in MTMs

Globally as well as domestically, central banks are increasing the policy rates to contain rising inflation. Domestically, stricter lending norms stipulated by the Reserve Bank of India and rising interest rates are expected to impact the speculative development by non-institutional developers and would lead to deferment of certain upcoming supply. The institutional developers may be able to adhere to their delivery timelines, but they are likely to bring the new supply at higher rentals to compensate for the increase in costs. This is likely to add upward pressure on market rents, further improving the mark-to-market opportunity in our portfolio.

Overhaul of SEZ Act continues to progress well

We are excited to hear about the progress being made on rehaul of the SEZ Act. As we have been reading, the proposed law, Development of Enterprise and Service Hubs or DESH is intended to convert existing SEZs into engines of economic growth and employment generation. To promote this objective and aid the growth of current SEZs, the Government is expected to allow partial denotification and permit rupee billing thereby allowing SEZ occupiers to service domestic clients as well. The Government is also intending to provide a single-window mechanism for easier denotification of SEZ space. We are eagerly tracking updates on this front as this should provide massive support for demand in SEZs. This instils remarkable confidence in leasing out most of the vacant SEZ spaces post the change in law, accelerating the trajectory of occupancy improvement.

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

- We have leased c.0.9 million square feet during the first quarter of FY23 of which c.0.4 million square feet was re-leasing and c.0.5 million square feet was on account of new and vacant area leasing

- The committed occupancy of the portfolio stood at 85.6%, recording a jump of c.130 bps on a sequential basis

- We have achieved an average re-leasing spread of 36.4% on the c.0.5 million square feet area re-let

- The average rent achieved on the c.0.9 million square feet leasing was INR 63 per square feet per month

- Our in-place rents have grown by c.9.3% YoY to INR 62.4 per square feet per month
- Our revenue from operations for the quarter grew by c.16.3% Year-on-Year to INR 4,916 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.10.9% Year-on-Year to INR 4,014 million.
- Our distributions stood at INR 2,811 million or INR 4.74 per unit up by c.3% on a sequential basis.
- The weighted average cost of debt stood at c.6.9% at the end of Q1 FY23
- Our portfolio is now further diversified with over 175+ tenants
- We are proud to announce that Mindspace REIT featured in 'Great Mid-Size Workplace 2022' in our debut

To summarize, we look forward to another year of strong growth, setting up new benchmarks as we continue to be amongst the most preferred asset manager partners for the growth needs of tech-enabled workspaces. We continue to upgrade our offerings and create experiential workspaces necessary for attracting the millennial workforce of India.

We are proud to announce that the share of Green Buildings in our completed portfolio has increased from c.77.3% in the March quarter to over 90% now. We received LEED Platinum O&M Certifications across 6 buildings and LEED Gold O&M Certification across 5 buildings during the quarter.

We also continue in our endeavor to develop the ecosystem we operate in and thrive to improve it. As a part of our community outreach initiative, we have partnered with the Local Government in Telangana and built a new School in Gambhiraopet. The school spread over 10,000 square feet has been designed to accommodate 400 children, it is equipped with well-designed classrooms, a library, dining area, training rooms and an outdoor play area.

With this backdrop, I hand the call over to Preeti to take you through the financial updates during the year.

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

I'm happy to present our financial performance for the first quarter of the financial year 2023.

We closed the first quarter, with a Revenue from Operations of INR 4.9 billion registering a growth of c.16.3% YoY. Our Net Operating Income stood at INR 4 billion, recording a strong c.10.9% YoY growth. We continued to maintain NOI margin at 80% plus.

We announced a distribution of approximately INR 2.8 billion i.e., INR 4.74 per unit for the quarter. The distribution grew by 3% on a sequential basis. The distribution comprises approximately 93% i.e., INR 4.41 per unit of dividend, which is not subject to tax in the hands of unitholders, approximately 6.8% i.e., INR 0.32 per unit of interest and approximately 0.2% of other income.

We had concluded the sale of approximately 40 acres of land at Pocharam, Hyderabad for a consideration of INR 1.2 billion in the previous quarter. This consideration is not envisaged for an immediate re-investment opportunity. In view of the same, it is proposed to pay out the sale consideration as per the terms of the REIT Regulations. Accordingly, NDCF for the quarter ended June 30, 2022, includes INR 300 million of distribution of part of such sale proceeds to unitholders.

On the funding side, our leverage on the portfolio on a consolidated basis continued to remain low at c.16.6%. Our net debt as on June 30, 2022 was INR 44.4 billion. We have undrawn committed lines of INR 3.8 billion from financial institutions. Our strong balance sheet provides us the flexibility to pursue organic and inorganic opportunities for growth of the portfolio.

During the quarter, we refinanced INR 4.9 billion of debt through issuance of listed non-convertible bonds at SPV level and raised another NCD of INR 5 billion at the REIT level post the quarter end. With this NCD raise, around 41% of our debt is now at fixed cost. Our borrowing costs remain low at c.6.9% at the end of the first quarter, though we expect the changing interest rate scenario to move our cost of debt higher in the coming quarters. We continue to pursue opportunities to optimize our borrowing cost in the current macro environment.

Our evaluation of the potential acquisition of the ROFO asset, Commerzone, Madhapur, Hyderabad, for which we received the ROFO notice from the Sponsors, is in progress. We hope to complete our evaluation and present the opportunity to the Governing Board soon.

In furtherance to the memorandum of understanding executed between Gigaplex Estate Private Limited (“Gigaplex”), an asset SPV of Mindspace REIT and K Raheja Corp Private Limited (“KRCPL”) in relation to the proposed transfer of leasehold land admeasuring approximately 16.4 acres at Mindspace Airoli West, by Gigaplex to KRCPL, which was subsequently reduced to approximately 5.7 acres, we have decided to retain the c. 5.7 acres in Gigaplex to explore development of a data center or office space.

REITs have demonstrated steady performance and have witnessed growing interest from all categories of investors. The product is continuing to gain traction amongst retail investors which is very encouraging. Our investor base expanded by over 8,000 unitholders in the quarter ended June 30, 2022 largely driven by the addition of retail unitholders. We expect positive regulatory reforms to help enhance liquidity in the instrument.

It gives me immense pleasure to announce that we published our first Sustainability Report in the first quarter of this financial year. The report presents our commitment to drive a responsible business with high standards of governance and transparency. We are committed to investing in initiatives that benefit all our stakeholders and the communities around.

To conclude, we expect the growth in NOI and distributions in the current financial year to be led by the improving leasing environment, revival of demand for our SEZ spaces post implementation of the DESH Act and rules thereunder and as Vinod mentioned earlier in this speech, tenants' preference for institutional high quality asset managers.

With this, I request the operator to now open the floor for questions and answers.

Q&A

Moderator: We will now begin the question-and-answer session. We have a first question from the line of Shashank Savla from Somerset Capital. Please go ahead.

Shashank Savla: I had a couple of questions. First, can you elaborate on the SEZ vacancy, how much of the total vacancy is related to that, which you will be able to fill now?

Vinod Rohira: In our portfolio, about c.1.8 msf is SEZ, which is waiting to get leased in terms of vacant spaces in the Navi Mumbai area. And the other parks combined, it is about c.2.0 msf.

Shashank Savla: So, it's everything based in Mumbai or Navi Mumbai?

Vinod Rohira: Yes, predominantly Navi Mumbai, that's right.

Shashank Savla: The second question was on the net operating income margin. So, if I compare this quarter, it was around 82%, first quarter of last year it was around 86%. Is there any reason for the fall in that operating margin?

Preeti Chheda: Shashank, essentially what's happening is, with the occupancy in the parks increasing, our maintenance expenses are returning to the normalized levels. We enjoyed the benefit in the last two years of lower CAM expenses, not a pleasant situation, but because of the lower occupancy. But now since the occupancy is getting better, the expenses are getting back to normal. So, we continue to maintain 80%-plus, which we were doing pre-COVID.

Shashank Savla: And a more general question is we've seen the inflation numbers higher and with that your costs would be increasing, but your annual rent escalations are almost fixed at I think 5% per annum. So, how do you manage in this environment when the inflation is very high?

Vinod Rohira: So, there are two things that happen. One is whatever is built in any case is leased, so there is no inflation impact on constructed buildings. What it does is, it moves the needle up towards increase on the base rent in markets where inflation for new assets becomes higher, cost becomes higher to build, rent goes up. So, all your vacancies gain dramatically because they start catching up mark-to-market at higher interest. Supply diminishes, because more supply is speculative in nature, does not come with costs are going up. Fortunately, the inflation has tamed itself down now. And we are seeing it under control levels. But yes, it's been higher than what it was. But I think at these levels, we will see firming up of rent and we are comfortable with building.

Shashank Savla: And a final question on the interest rate outlook. I think around 40% of your debt is fixed. Is there any plan to fix more of your debt? And then what's the impact on your NAV or the market value of your properties?

Preeti Chheda: We continue to look at opportunities to see if we can fix some more debt. If it's making economic sense, we will go ahead and do that. As far as the overall impact, in this financial year, we don't see a great impact, because 40% of our debt is fixed. And we have resets even for the variable debt. So, it's not necessary all of it will increase. Of course, we will see an increase versus where we are today. We've already seen that in Q1. We moved up from 6.6 to 6.9. So, you will see directionally the interest rates will move. But we don't see, a very substantial impact on distribution at least in this financial year.

Moderator: We have a next question from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Vinod, my first question is on the rental rates. Are you already seeing those go up for let's say, the new supply when you rent them out in advance, or will this be contingent on let's say the occupancy of existing assets crossing a particular threshold and it starts to go up after that?

Vinod Rohira: No, we are already seeing rents move up. It's like Hyderabad we did. The new area that we lease is now in the range of 68, 69, 70. And the earlier areas were between 58, 59. So we have already seen rents firm up.

Kunal Tayal: And then just a follow up on the SEZ part of it. I heard so far so good in terms of the drafts that have come out. Does it sort of make you stay with your existing plan as to from when the SEZ spaces start incrementally getting leased out or do you think you can lease that out faster now, will it still take time, any color there?

Vinod Rohira: So, it's like this. While in each micro market, we've seen demand rise, we were not able to offer the SEZ space, because we didn't see SEZ demand. Now, with the DESH policy that opens doors to any tech player, domestic or otherwise within the SEZ infrastructure. That will push the demand and move the demand into these parks. So, we're kind of very bullish on filling that space up. It will take its own trajectory. How you fill up in each micro market, depending on the demand/supply dynamics there. But certainly, it helps, because you infuse supply where there's no supply in markets and you're seeing demand come.

Kunal Tayal: Broadly, if I may, is that an expectation for some time within fiscal 23 or most likely for next year?

Vinod Rohira: Most likely next year. We may just start getting the tailwinds in Jan, Feb based on when the DESH policy comes in. But you will see the real traction in the next financial year.

Moderator: We have the next question from the line of Tanveer Sure, an individual investor. Please go ahead.

Tanveer Sure: I had a question about REITs in general, but you could also answer it from Mindspace perspective. So, I understand that assets are being acquired by REITs. But is there any lifespan of the asset that is acquired or what is the decision or what makes the management get rid of an asset, I know how they acquire it, but if an asset has to move out of the portfolio, what are the things that the management would be looking at?

Vinod Rohira: So, there are two, three things. Primarily, we are too early in the cycle for us to start evaluating whether we want to exit from an asset or not. It all depends on how the value translates. Currently what is happening in most of the environments we develop, we have become dominant players, and those micro markets have emerged from suburban business, districts to primary business districts in most of those cities. We still see a very strong upswing in the way those assets are going to be perceived in the coming years. So, I think there's a lot more that asset can give back to the marketplace. Probably, we are 5-10 years away from thinking about any of these assets that we may want to exit or not. But there is a process that is involved, and we will obviously follow that process by taking the requisite approvals, if at all, we think of deciding to exit some asset in that micro market, we will certainly look at what the process is.

Tanveer Sure: But are there any parameters specifically that you're looking at in case of exit of an asset?

Vinod Rohira: No, nothing really. If someone's really paying me two times my value now, very happy to exit. But keeping it more rational to what the market is, it depends on where the asset is in the cycle. What we believe is the future of a particular type of asset and micro market, whether it is strategic for us or not, and it continues to be value-accretive or not, we will take a call based on that.

Tanveer Sure: I see that the occupancy level in Mumbai is slightly on the lower side. Is that because of the whole SEZ thing that you just spoke about?

Vinod Rohira: You're saying occupancy in terms of vacant area or occupancy in terms of physical occupancy?

Tanveer Sure: No, vacant area?

Vinod Rohira: So that was primarily the SEZ footprint. And the SEZ demand didn't pan out the way we were hoping SEZ demand would pan out, which is why it's vacant. The minute it moves and merges with the DESH policy, then suddenly that becomes a quality offering for the non-SEZ occupiers, and we've seen demand traction of the non-SEZ occupiers in some of our non-SEZ assets in the Navi Mumbai region, which have seen a lot of leasing traction.

Moderator: We have a next question from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: A few questions. First of all, can you update us on where we are on the ROFO discussions currently?

Preeti Chheda: Abhinav, as things stand, we are in the process of evaluating and we are almost reaching, I would say, the closure of evaluation, and I guess in the next few months, we should be able to go to the governing board to present the opportunity.

Abhinav Sinha: Any thoughts on likely financing mix between debt and equity?

Preeti Chheda: That's still under discussion, and hopefully, when we've concluded we should be able to come back to you with the exact structure.

Abhinav Sinha: But target remains to conclude in this current financial year, right?

Preeti Chheda: Yes, absolutely.

Abhinav Sinha: On the CAPEX part, can you guide us the pace that we have seen in the current quarter, is it sustainable or do you see tapering down as some of those buildings come up?

Vinod Rohira: So, the way we see it is in the current financial year, two new building projects have started; one is a 1.3 msf in Hyderabad and the other is a 1 msf in in Pune and we see similar trajectory continue to be there in the coming quarters and years as and when we get opportunity to develop more assets. So, this will continue in the same trajectory that you see.

Abhinav Sinha: Roughly, the same sort of trends that we're seeing should be broadly of 1.5-2 billion a quarter?

Vinod Rohira: Yes, that's right.

Abhinav Sinha: Just going back to the SEZ discussion, can you just remind us of what is the total portfolio area that you have in the SEZ side, and is there a number for occupancy there versus the overall portfolio?

Vinod Rohira: So, the total size of our SEZ portfolio is 14.4 million sq ft and that is currently 86.2% leased, occupied.

Abhinav Sinha: So not much of a difference overall, right?

Vinod Rohira: No.

Abhinav Sinha: Do you see a rental difference here?

Vinod Rohira: No. See, what is happening is the minute you create the right ecosystem and you're in the right quadrant of space and you've done the right experiential offering, these are similar office spaces whether it's SEZ or not. So, it becomes an active ecosystem then it attracts the top talent to come and work there and that's why top companies want to lease.

Abhinav Sinha: But your excitement on when converting from SEZ to a normal office space, is it because of incremental demand or is there any other thing?

Vinod Rohira: There are two things. One is the SEZ policy had an expiry date. So, by default, after that expiry most clients had no clarity on the continuity of wanting to take an SEZ occupancy and continue with that. So, this policy they were all waiting for and because it was quite defined in terms of dollar billing and 100% EOU dollar income only etc., companies didn't want to be in a regimented environment. What this new policy will do is allow them to subsume in the DESH act, continue to grandfather the tenants who are doing the exports and bring in all the new domestic players or tech companies that don't necessarily want to be under the framework of the existing SEZ law to occupy and be in this DESH environment where their focus is really employment and economic growth. It's nothing to do with a regiment of dollar earning and stuff like that. So, it just changes the game.

Abhinav Sinha: So basically, it gives more flexibility to your occupiers, and you believe that's the right way for this to go?

Vinod Rohira: Absolutely.

Abhinav Sinha: One last question for my side. We have seen this jump up in committed occupancy which is quite good to know. Now when does the actual occupancy follow and what should be the trend say for the next 9 months there?

Vinod Rohira: What happens is whatever you lease, generally the period between closing the transaction and signing a lease is a couple of months and then you have between 6 and 8 months of rent free depending on size, client, if it's a smaller client it could be even 3-4 months. So, the minute that period gets over you generally start seeing the rent coming in.

Abhinav Sinha: That is when we will basically call it actual occupancy.

Vinod Rohira: So physical occupancy begins at that point in time, the lease commences when you sign the lease deal. So, you have a rent commencement date and a lease commencement date. The lease commencement is really 6 months prior to actual rent commencement.

Moderator: We have a next question from the line of Samar Sarda from Axis Capital.

Samar Sarda: I have three questions. One the 120-day extension you've taken for the ROFO, like Preeti did mention that you're still evaluating, what is the possibility that it might be extended further? Because from an asset acquisition perspective like given the SPV, the occupancy seems to be straightforward thing. Any likelihood is that gets extended further?

Preeti Chheda: Samar, we don't really at this stage envisage this being extended further. We should I think within the time we've asked for should be able to present the opportunity to the board.

Samar Sarda: My second question was on the area you decided not to sell back to the KRCPL group. Given the vacancy at Airoli West any reason you want to keep back the area right now or not monetize it? If I'm not wrong, there is some encroachment or full occupancy or position not being there of the property. What's the rationale behind keeping the property back?

Vinod Rohira: Most importantly two things have happened in the last 12 months. One is, we've seen a surge in data center demand and in the same piece of land, abutting this piece of land, we are now doing two independent buildings of data center. We believe there will be an opportunity to do a third if we can retain this land back. Secondly coming back to the STPI demand which is a non-SEZ demand we had a million square foot building which we had de-notified. We have significantly leased out. I think I wouldn't be surprised if before the coming quarter end, we will come and tell you we fully leased that building out and we have no STPI supply. That also gives us a heads up. If we want to add more supply to that micro market in that park, then we should retain the land for that. We are right now towing with opportunities, and which is why we want to retain it to ourselves.

Samar Sarda: My third was a follow up basically on Airoli West itself. So, the 0.9 million sq ft which is like complete is more or less leased out. For the area you retained would we also see a possible new start to construction by the end of this year possibly for a third data center building? What is the timeline of de-notification? Because we are still in draft stage for building B5 to be de-notified and that 0.5 million sq ft to be leased out.

Vinod Rohira: What is happening is, I'm glad you remember the asset and the building, very happy to note that you're aware of the asset and I'm glad you asked that question. What is happening under the new DESH policy we may have to not be required to de-notify because DESH is allowing you occupancy of non-SEZ profile of customers directly to come in. We may save the complete time of de-notification and from the day DESH is activated we will be able to lease these spaces. That's a big game changer that is envisaged in the new act in the way currently the draft bill has been represented.

Samar Sarda: The query on possible construction start to another data center building since you retained that land.

Vinod Rohira: Right now, we're exploring opportunities. We'll be very happy to lease as fast as we can, but we see potential which is why we want to retain the land.

Moderator: We have a next question from the line of Shashank Savla from Somerset Capital.

Shashank Savla: One follow-up question on the data center, in terms of the actual returns how does the data center compared to the office segment?

Vinod Rohira: It depends on place to market, time to market at least 10%-15%-20% pop in terms of value you can achieve if it is a build to suit data center in this market environment.

Shashank Savla: I'm just trying to understand if you have a vacant lot of land, how would you decide whether to build a data center or an office in that area?

Vinod Rohira: We will not build speculative data centers. You will always build a data center if it is a pre committed build-to-suit transaction. So, when it's pure land unless you want to transact in a future leasable, buildable area kind of an arrangement. Otherwise, you would build only if you had a customer for the data center.

Shashank Savla: And the existing data center project, is that complete or is that yet to be completed?

Vinod Rohira: There are two blocks committed by the customer. The first block is under construction which is 315,000 sq ft which is scheduled to be delivered by March this financial year. We're about 15-20-30 days ahead of schedule so we might hand over earlier. The second building must be built within 12 months of handing over the first building. Most probably we might see the tenant ask us to build earlier but otherwise that's the schedule.

Shashank Savla: I had a question for Preeti on the NDCF. I just wanted to understand a few of the items in that, one is in terms of the redrawal of the Pocharam sale. I think last quarter there was an amount of 1.2 billion in both plus and minus and there's a plus of 300 million. Is that something which you're not using for your existing purposes, so that's why you're paying it off?

Preeti Chheda: Currently we are not contemplating any immediate reinvestment opportunity and that's the reason we chose to be a part of it in this quarter. The balance we will evaluate as we go along and decide in course of the year if we have something to invest in. Otherwise, we may decide to distribute the entire thing. But we'll take that call as we go ahead.

Shashank Savla: But is there a limit in terms of period as to how long?

Preeti Chheda: In a year's time we need to decide as per the REIT regulation.

Shashank Savla: I also wanted to understand in terms of the debt drawn there's a plus and a minus of around INR 5.5 billion. Is that just refinancing of existing debt?

Preeti Chheda: Yes, that's right.

Shashank Savla: Is it both at the REIT level or at the SPV level?

Preeti Chheda: The refinancing was, so the repayment happened at the REIT level. Any which way when we had taken this loan at the REIT level, the proceeds had gone to repay the SPV loan. Now we are just drawing at the SPV and repaying at the REIT. And then we obviously as I said we subsequently raised another debt in July for the quarter end.

Shashank Savla: Is there any tax impact or difference whether you raise at the SPV or the REIT level?

Preeti Chheda: No, it doesn't really matter. It's only just that in terms of the rate, we get better rate at the REIT level because of the AAA rating. That's why the preference is to raise at the REIT level. That depends, sometimes the capital structure also plays a deciding factor but otherwise broadly if it's a fixed cost debt, we generally prefer to raise at the REIT level. As I said even earlier, we would like to retain some of the LRDs at the SPV level as well because that's a long term and even from a financial risk management we prefer to have some long-term debt at the SPV level.

Shashank Savla: Finally, assuming that there are no new assets coming in, the quarterly distribution is that expected to remain at these levels? Because your higher income might be offset by higher expenses or interest costs.

Preeti Chheda: So, as I said this year, we don't expect a material impact on account of the interest rate on the distribution. So, we hope that the current distribution we should be able to maintain.

Moderator: We have a next question from the line of Rahul Marathe from ICICI Prudential Pension Fund.

Rahul Marathe: As we could see that during the quarter bulk of your leasing happened in the Hyderabad micro market, so if you can just provide some more color on the physical occupancy there.

Vinod Rohira: About 28%.

Rahul Marathe: So currently we are at 28% and how has been the trend like quarter-on-quarter?

Vinod Rohira: We were about 11% odd, it moved to 28%.

Rahul Marathe: And how does it compare to say Mumbai micro market?

Vinod Rohira: Mumbai micro market is same and slightly higher. It is in the range of about 45% - 50% and you will see some parts in Mumbai it is even 60%.

Rahul Marathe: The Hyderabad market do you see this stabilizing at current levels, or do you see it improving from here on?

Vinod Rohira: It will keep improving from here on.

Moderator: We have a next question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Just a quick one on the previous participant, 1.2 billion from Pocharam sale, why do you say that you don't have any investment requirement because you are doing CAPEX, you have a ROFO asset which may come on board very soon. Why are you using that money for distribution?

Preeti Chheda: Sameer, generally as I've been saying earlier also, most of our CAPEX is funded out of debt, most of the CAPEX is at the SPV level. In terms of distribution, so in ROFO since you specifically mentioned we still have to work on the capital structure to finalize that. But if it happens by way of swap, we really won't need any capital for the ROFO. That's the reason we have taken a call to distribute part and as I said as we go along in course of the year depending on the requirements of funds we'll take a call, whether we need to retain this money or distribute.

Sameer Baisiwala: Preeti, going by the logic that you are giving that CAPEX will be debt funded and ROFO in a certain manner. So, it looks like you will be using this money for distribution. I don't see where you can use this which investment can you use this for.

Preeti Chheda: Sameer in the course of the year if any new investment or any other acquisition opportunity comes our way and we are able to use this well good, otherwise as you said we would look at distributing this money.

Sameer Baisiwala: Vinod any number that you have in mind, or you can take a guess at what could be the exit committed occupancy by the end of this year?

Vinod Rohira: We have 1.1 million square feet cumulatively that comes in for expiry this year. At the beginning of the year if you remember I had given a visibility of 6,00,000 sf. The way I see it now, we have more than 800,000 sf visible as renewal for sure and the rest of it we will tackle as it comes along at that point in time that is where we are Sameer with that. So, we do not see any hiccups there at all.

Sameer Baisiwala: But for the vacant area would you not have some number and therefore occupancy?

Vinod Rohira: For the vacant area what we discussed also we are moving towards the target to reach that 90 plus percent of occupancy by the end of the year.

Sameer Baisiwala: If I have understood correctly 85.6% that you have for this quarter may move up to 90% by end of this year?

Vinod Rohira: That is what we are hoping for that is correct.

Sameer Baisiwala: The last question is on the ROFO assets when does the tenant rent generation begins and is that something that is important for you to decide on the timeline?

Vinod Rohira: No, they are mutually exclusive, but the rent will start between October and November this year and we should be ready by then to look at the asset to be brought to the board for taking the next steps to close.

Moderator: Thank you. We have the next question from the line of Satyendra Singh from Eon Infotech Limited. Please go ahead.

Satyendra Singh: So, I have two queries one for Vinod sir to decide the return to office what are the top three challenges that you see for yourself as we drive this business?

Vinod Rohira: I see challenges more as opportunity honestly because after a two-year lull you are seeing a hybrid environment and that hybrid is quickly changing towards physical occupancies moving up. So, everyone is watching that space and we are seeing tenants slowly inch up towards physical occupancy. What that does is two things. One is the minute they reach that 50%, 60% occupancy number they will suddenly come back with need for more real estate and at that point in time we are not seeing too much supply in most micro markets. We are fortunate we have vacancies in some of our parks which we will quickly fill up. We just want the DESH policy to come as quickly as it can so that we can infuse that supply in the marketplace otherwise we are focused more on trying to even bring our under-construction supply quicker than what our estimates are. So that is an opportunity we want to encash by bringing in supply the right time so that we can further lease as demand moves up. Essentially inflation seems to have kept out, so we are quite comfortable now compared to what it was earlier. Interest rates hopefully will find a stable even plateau soon and then I do not see any other roadblocks into our targets and are posturing for moving forward.

Satyendra Singh: And Preeti while we have about 35%, 40% fixed debt there from your slide 45 it appears that if one were to look at the weighted average debt then be fixed component goes on much more because most of the fixed components expired early, if you have to refinance today what are the kind of rates that you are able to refinance today at?

Preeti Chheda: So, we just did one transaction post the quarter end. We have done that at a 7.95 coupon fixed for 5 years. So, that is the kind of pricing we are seeing currently of course the prices have moved up in the last three, four months because of the policy rate changes, but that is where we are.

Satyendra Singh: This is before the last repo movement in the price?

Preeti Chheda: That is right we did it before the last three, four months.

Satyendra Singh: I think it will be good for you to point so we can understand that Pocharam sale is being used to even out the distribution and I think it is okay to maybe includes that as a part of your visibility that Pocharam sale will support distributions for this year I think it will be a great decision so it would be okay to bring it upfront only and otherwise I think great set of numbers.

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

Manish Agarwal: Two questions firstly on Commerzone Porur if you could highlight what sort of exit occupancy rate can we have for FY23 or what sort of traction are we seeing in the asset?

Vinod Rohira: So, Chennai has been slightly slower, but we still maintain we will be able to significantly lease out these assets by the end of the financial year.

Manish Agarwal: And secondly on the taxation part so in the P&L the taxation seems to be slightly on the higher side, what exactly is it happening over there?

Preeti Chheda: Generally, when you are going to look at PBT so you are going to have some SPVs which are obviously not profit making because they have lot of under construction component. Therefore, you will see it higher because those losses are sitting on those profits and that is the reason the tax will be looking higher. Clearly one of the reasons so it will not be right to do a tax straight away on PBT. And then there are certain deferred tax positions which has also led to a little bit of higher notional tax so to say.

Manish Agarwal: So, the deferred tax is actually not paid out, so this is being used currently?

Preeti Chheda: Yes, that is the notional cash it is not an actual cash payout.

Manish Agarwal: So, it will remain at elevated levels going forward in FY23-24?

Preeti Chheda: It is not actually at elevated levels it will remain at the levels as which it is. It is just that you are seeing this higher because of some assets which are loss making, which are setting of those profits. Once those start moving into the profit territory you will start seeing those effective tax rate lower.

Moderator: Thank you. We have a next question from the line of Punit from HSBC. Please go ahead.

Punit: My first question is Vinod you talked about you know rental moment in your portfolio, can you give some more color on what is the magnitude of rental moment that you are seeing in the marketplace and specifically for your assets?

Vinod Rohira: So, we have seen stable form up of rents and we continue to see that trajectory because supply is thinning out, Grade A supply is not there. So, each micro market will behave in its own way, but all micro markets we are seeing forming up at different degrees and pressure moving upwards because the quality supply is thinning out, envisage a year ago that everyone will run for grade A and grade A will get a line share of the demand and when that line share of demand comes forward rents for Grade A will form up significantly higher than the market average that is what happening.

Punit: Is that applicable for Hyderabad as well?

Vinod Rohira: Our average rent of what was vacant was at 58, 59 we leased that 69 odd those of the vacant area. So is what we were envisaging happened and we are now getting the rent pop there.

Punit: So, the new supply which was envisaged to come in Hyderabad has not come to the expectations?

Vinod Rohira: Supply of grade A is not there. See there is a big difference between experiential real estate, assets managed with a quality of the experience you provide to your tenants will decide what profile of tenants wants to come to you and that tenant is willing to pay a price for the experience and the quality of asset management and that is exactly what is making us different.

Punit: My second question is if you have any chance on whether you want to lease out your spaces to managed workspace provider or co-working space providers and what kind of rental agreements are those currently working for you?

Vinod Rohira: So, most of the players who we would engage with are guys who already have a back-to-back client which is a AAA grade tenant who is looking for flexibility, but he is signing the back-to-back contracts. We are happy to do transactions with those kinds of arrangements and the rents are in line with what rents we are charging, there are no special freebies or advantages passed on to any of those occupiers for us it is business as usual.

Punit: So, these are fixed rentals not revenue share kind of contract?

Vinod Rohira: No not at all these are vanilla leases with the rent that we want.

Punit: Preeti for you on your variable cost what is the cost of borrowing linked to is it more MCLR linked, more repo rate linked, how should one think about that?

Preeti Chheda: So, Punit generally the way these interest rate for variable cost debt moves is they move with a lag, it happened both ways and the cycle is the other way also we have seen the rates decreasing with the lag. Now when the cycle is reversing, we are seeing the rates increasing with the lag and what happens is sometimes we have debt which have annual reset, some of them have quarterly reset. Even if the repo rate moves or so generally this change on resets. So, we do have the benefit of some loans whether reset is there or year later. To that extent for a year at least we get to enjoy the benefit of those rates. So, not everything will move exactly in tandem with the repo rate directionally that is the way it will happen, but not necessary it will translate to the same proportion of range.

Punit: So not in line with repo or do you think it is fully largely?

Preeti Chheda: I would say eventually it will be in line with repo, but not immediately in the short term it will not be. So, generally it is not necessary the banks that transmits those interest rate exactly the way we do not move.

Punit: So, underlying is not necessarily repo for your scale?

Preeti Chheda: Not necessarily, directionally yes Punit that is the way it will move. If the repo rate on a rise you will see the interest rates moving up, but it is not necessary that a 50-bps change here will immediately lead to a 50-bps change in the variable cost debt cost, that is the not the way it will work.

Moderator: 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.