"Mindspace Business Parks REIT's Q4 & FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Mindspace Business Parks REIT Earnings Conference Call for Financial Results for the Quarter and Year-ended March 31, 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this call is being recorded.

I now hand the conference over to Mr. Kedar Kulkarni. Thank you and over to you, sir.

Kedar Kulkarni: Thank you and good afternoon, everyone. Welcome to the Fourth Quarter and Full Year Financial Year 2022 Earnings Call for Mindspace Business Parks REIT.

At this point, we would like to highlight that the management may make certain statements on this call that may constitute forward-looking statements. Please be advised that our actual results may differ materially from these statements. Mindspace REIT does not guarantee these statements or results and is not obliged to update them at any time.

We would like to reiterate that the acquisition of Asset SPVs by Mindspace REIT was effected on July 30th, 2020. Consequently, consolidation of financials of BUs Asset SPVs with Mindspace REIT has been done effective August 1, 2020. Condensed consolidated full year 2021 numbers therefore reflect eight months financial performance of these asset SPVs. However, for the purpose of comparison, in the earnings presentation, and for the purpose of this call, we have provided pro forma revenue from operations and net operating income for FY'21.

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 and the Sector. Preeti will further share an update on the Financial Performance. We will then open the call to "Q&A." I now hand over the call to Vinod.

Vinod Rohira: Thank you, Kedar. Good afternoon to all participants. Hope you and your families have been safe and are doing well. Thank you for joining Mindspace REIT's earnings call.

While the year saw major disruptions caused by the pandemic putting the fundamentals of our business to test, we have emerged stronger and more resilient from this crisis.

Financial Year 2022 ended as one of our best years, with c.4.5 million square feet leased in the REIT portfolio and c.2.9 million square feet in our ROFO portfolio taking the cumulative number to c.7.4 million square feet. Almost all our under-construction buildings witnessed pre-commitments. Our Net operating Income for the year stood at INR 14.9 billion, a growth of 8.2% over the previous year. We have achieved a releasing spread of 31.0% during the year. Our on-campus developments led to an increase in total leasable area from 30.2 msf to 31.8 msf as on March 31, 2022. The growth in the portfolio is primarily on account of increase in area of our new building at our Pune asset on account of additional FSI, redevelopment of old buildings at Hyderabad and commencement of construction of the new recreational and entertainment areas at Hyderabad and Mumbai parks.

The market value of our portfolio now stands at INR 264 billion as on March 31, 2022 up by c.5.7% over March 31, 2021. We have completed refinancing of over INR 9 billion via debenture raises from mutual funds and insurers as our overall cost of debt now stands reduced by c.50 bps during the year to c.6.6%. Our distribution for the year stood at c. INR 10.9 billion or INR 18.4 per unit.

A number of factors played out during the year which helped us clock such strong numbers– robust business performance of the IT industry, sharp jump in employment, occupiers' intent to provide an experiential work environment to their employees and the rising preference towards quality Grade A assets managed professionally.

Let us elaborate these factors in more detail-

Demand for Grade A assets with professional management:

As envisaged, occupiers do not want to risk or compromise on asset quality as they restart their journey towards office occupancy. There is a strong desire to create and provide wellness and experiential work environments. We had anticipated this trend to play out. As highlighted during our earlier calls, we have been using this downtime to upgrade our assets which would have been tougher to carry out at full occupancies. The upgrades have been executed laying special emphasis on improving - sustainability, building aesthetics, wellness, health and safety, providing recreation, amenities, and thereby offering the right balance at the workplace. The positive impact of these actions has begun to show with top-notch occupiers gravitating towards such offerings. To quote one such example, we have recently inaugurated the 1-kilometer-long skywalk within our Mindspace Madhapur at Hyderabad, allowing seamless connectivity from the metro station to their office doorstep. The skywalk has not just helped to reduce the discomfort caused by vehicular traffic to pedestrian movement, but also led to significant reduction of carbon footprints generated by last mile transportation of vehicles as well as reducing the noise and traffic within our parks. The Skywalk also houses a Vantage Café along with kiosks and breakout spaces providing food, recreation, and entertainment offerings. As our occupiers and their employees, begin to return to office, they are pleasantly surprised by the transformation and the stress-free travel to their office spaces. It is fast becoming a new landmark for the city of Hyderabad. Many such interventions will change the face of workspaces.

Indian IT industry at a new inflection point:

The Indian IT industry has reached another inflection point led by increased spend on digitization by companies globally. Unlike the previous inflection point of Y2K, which was led by cost arbitrage models, this time around it is led by intellectual value-added services like - data analytics, cloud management and artificial intelligence, among others.

The record addition to headcount of IT companies in India is testament to the renewed growth prospects. As per NASSCOM reports, the strength of IT companies is expected to cross c.5.1 million in FY22 reaching a record high, with additions of c.4.5 lakh employees during the year. Hiring of freshers by top technology companies is expected to be up 2.5x over FY21.

India had 1,430+ GCCs at the end of FY21, this count is expected to grow at a CAGR of 6%-7% to reach 2,000+ GCCs by FY25. In the same period, the headcount of GCCs is expected to grow 2x at a CAGR of c.12% reaching c.2 million by FY25. These new hiring trends are estimated to translate into significant addition to new office space demand.

Back to office plans of occupiers gaining momentum:

Today's industry leaders clearly understand the importance of workspace in shaping the culture of organizations to promote collaboration, innovation, and growth. Employees have come to realize the importance of having a dedicated and distinguished work environment. If we refer to the recent earnings call of several top Indian IT companies, a definite return to workplace plan is in motion. We are witnessing this 'return to office' play out on the ground as well. The physical occupancy in our parks has increased to c. 23% in May 2022 from 14% during March 2022. Based on our conversations with our occupiers, we expect it to cross 50% by the second half of this year. Over the past 2 years, many companies have expanded and hired a record number of people and they intend to host their employees back in experiential work environments by replacing the densified spaces with more focus on recreation and wellness. As employees start returning to office, we anticipate occupiers to expand their footprint to cater to increased headcount coupled with de-densification requirements. This will generate demand for more space.

Rising demand from large occupiers:

Large occupiers have begun their search for consolidation and expansion leading to a spike in demand for under-construction assets. Our ROFO assets have also witnessed similar trends.

We expect this strong uptick in demand for under-construction assets to continue. To cater to this demand, we have brought forward the construction timelines of our under-construction buildings across parks.

At Mindspace Madhapur, we have now commenced the 1.3 msf redevelopment project. Additionally, we have commenced work on creating an experience centre for Recreation & Entertainment within that park. At our Mindspace Airoli East Park, we are developing a similar high street experience for food, entertainment, and recreational retail. All these additions are part of our endeavor towards changing the workspace landscape by bringing fresh energy for the young millennials who form a major part of the nation's workforce.

We continue to explore opportunities for growth organically and inorganically. At present, we are evaluating the ROFO opportunity to acquire the 1.8 msf fully leased asset at Commerzone Madhapur which was announced during Q3 FY22.

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

- We have leased c. 0.7 million square feet during fourth quarter of which 0.2 million square feet was re-leasing and 0.5 million square feet was on account of new and vacant area leasing
- The average rent achieved on the c. 0.7 million square feet leasing was INR 63 per square feet per month
- Rents have remained steady in our micro-markets and we continue to see the same trajectory
- The committed occupancy of the portfolio stood at 84.3%
- Our Net Operating Income for the quarter grew by 6.6% sequentially to INR 3,960 million.
- The weighted average cost of debt stands at c.6.6% which is amongst the lowest in the industry. The cost of debt has come down by c. 260 bps since March 2020.
- Our distributions for the quarter stood at INR 2.7 billion or INR 4.61 per unit.
- Our portfolio is now further diversified with over 175+ tenants, compared to 160+ tenants at the end of FY21
- Following up from the third quarter announcement on British Safety Council's '7 Sword of Honour' awards we have won an additional '2 Sword of Honours' taking the total to '9 Sword of Honours'. These awards reward those organizations that have reached the pinnacle of health, safety, and environmental management
- We are proud to announce that Mindspace REIT is 'Great Place To Work' certified

We look forward to another year of resilience and growth setting up new benchmarks at our parks and continue to be amongst the most preferred asset manager partners in the growing need for increased tech enabled workspaces.

The Union Budget had acknowledged the importance SEZ has on the Indian economy. We expect the policies to be suitably reformed during this financial year which would allow SEZ and non-SEZ spaces to co-exists within the same parks. The strong leasing demand we are seeing for our de-notified buildings gives us confidence to lease out the vacant SEZ spaces post their de-notification. With large occupiers firming up on their back to office plans we expect smaller ones to follow suit. The strengthening of rents has offered an opportunity of greater mark-to-market leasing allowing for an upside while leasing the current vacant spaces.

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 quarter and the year ended 31 March 2022.

We closed the fourth quarter of the financial year 2022, with a Revenue from Operations of INR 4.7 billion. Net Operating Income for Q4 FY22 stood at INR 4.0 billion, a strong 10.6% growth over Q4 FY21 and a 6.6% increase on a sequential basis. Our Net operating Income for the year stood at INR 14.9 billion, a growth of 8.2% over the previous year. We continued to maintain NOI margin at 80% plus throughout the year.

We announced a distribution of approximately INR 2.73 billion i.e., INR 4.61 per unit for the quarter. The distribution comprises approximately 93.5% i.e., INR 4.30 per unit of dividend, which is not subject to tax in the hands of unitholders, and approximately 6.5% i.e., INR 0.31 per unit of interest. This translates to an annualized distribution yield of 6.7% on the issue price. Cumulatively for the financial year 2022 we distributed INR 10.9 billion i.e. INR 18.4 per unit.

On the funding side, our leverage on the portfolio on a consolidated basis continued to remain low at 15.7%. Our net debt as on March 31, 2022 was INR 42.0 billion. We have undrawn committed lines of INR 6.8 billion from financial institutions. Our robust balance sheet provides us the flexibility to pursue both organic and inorganic growth opportunities.

During the quarter, we raised INR 5 billion through issuance of listed non-convertible debentures at an attractive coupon of 6.35% per annum. We converted INR 9 billion of our variable cost debt to fixed cost debt during the year, thus taking our fixed cost debt as a % of the total outstanding debt of the portfolio to 45.9%. In aggregate we further reduced our borrowing cost by c.50 bps during the financial year 2022. We continue to pursue opportunities to further optimise our borrowing cost.

The Gross value of our Portfolio, as valued by the Independent Valuer, stood at INR 264 billion as at March 31, 2022, c. 5.7% increase over the value as at March 31, 2021. Our Net Asset Value per unit has increased to INR 364.9 per unit as on March 31, 2022 from INR 345.2 per unit as at March 31, 2021.

Post the approval of Board, we consummated the sale of c.40 acres of land at Mindspace Pocharam, Hyderabad, for a consideration of INR 1.2 billion.

Further to the ROFO notice received in respect of Commerzone, Madhapur and basis the approval from the Governing Board to evaluate the opportunity, the Manager has on-boarded advisors and has progressed with the diligence.

Our investor base continues to expand especially since the reduction in trading lot size. Since listing our unitholder base has grown over three-folds to c. 24,000 unitholders as on March 31, 2022. We expect positive regulatory reforms to help improve liquidity and deepen the market for these instruments.

To conclude, the improving market conditions for commercial real estate and the positive leasing trends are expected to help the growth of NOI and distributions from the portfolio in the coming financial year.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: Sir, you spoke about a lot of traction in the leasing and expect things to improve significantly going forward. So, could you just quantify this in terms of what is our gross leasing expectation for the year? We have done 4.5 msf last year. So, for this year, what is a lower or upper end for leasing? And if you could break it up into of the expiries of 1.1 million square feet, which you have in FY23, how much do you expect to retain, how much exits and versus that how much fresh leasing in the existing assets? Any guidance on pre-commitments on leasing for the upcoming assets?

Vinod Rohira: We are not providing any forward-looking guidance with respect to leasing. Having said that, the trend seems to be quite reasonably strong. We're quite excited about the market demand dynamics in each of our micro markets. I can just give you a broad highlight on primarily the re-leasing space that comes for terminations/expiry this year. Only 1.1 million square feet in our portfolio comes for the churn this year. Out of that, we already have visibility almost 600,000 square feet of re-leasing and we are just at the beginning of the year. For under-construction, most of our assets are pre-leased last year. So, we are seeing demand on under-construction assets across the board.

A Chattopadhyay: This question is for Preeti. Is there any broader guidance on NOI and DPU, is the growth being a single digit or double digits, any lower or upper end again for the DPU?

Preeti Chheda: Adhidev, we are not giving any guidance in terms of exact numbers, but as Vinod said, we're pretty positive about the growth numbers for next year. And obviously, the huge amount of leasing that we've done this year also, will start generating rent as we move ahead in the quarters. Obviously, we're not going to see all the rents starting from Q1. But as we move ahead in the financial year, we should be able to see increasing rent and therefore that should translate in NOI and dividend growth. So, I would end at that.

Moderator: We have the next question from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: My first question is, in the NDCF walk down, we see that the CAPEX number has gone up substantially on a QoQ basis from about Rs.140 crores run rate to more than Rs.200 crores. So, any reason for that.

Preeti Chheda: That's essentially because, some of the assets are almost nearing completion. We've also incurred spends on upgradation of a park which has been continuing, but some of them have almost seen conclusion. It's a cumulative impact of assets almost nearing completion and buildings which we have recently added to under construction. And as the assets come through the end, at that point in time, you'll see more spend with respect to finishing etc. So, that's why you see a higher capex spend towards the end.

Mohit Agarwal: On your gross leasing numbers, specifically for you, what we've seen is that you've been able to lease a lot of under-construction assets. Just trying to understand what's the thought process of the tenants there if you could give some color who are these kind of tenants, the thought process, and probably what is the inclination to lease out under-construction assets versus ready inventory, where also you have vacancy available?

Vinod Rohira: If you can just rewind back a few quarters in our conversations, we had said that, you will start seeing the bigger demand for the 12, 18 months schedule supply, which will come up first when people want to see growth in the next 12 to 18 months. So, all of those customers actually came forward, where they had a sizeable need for space, whether it was half a million to a million square feet or more. For that, if a building is under-construction, it can suitably get customized for the newer age office space requirements that most of these customers are looking for. And just as we had looked at it in the past, you got those opportunities in the right place at the right time for the right assets. And they were very concerned about health and safety protocols, asset management, etc., which kind of triggered the need to go into safe havens in parks where they could see all of that as the right mix for their employees when they want to come back to work. And that's really the opportunity we grab with both hands.

Mohit Agarwal: Just wanted to get your thought process of the sponsor or management on the non-ROFO sponsor owned assets. So, let's say we talk about the Altimus asset at Worli, just trying to understand, could these assets be also considered by the REIT to be purchased directly from the sponsor, or will they first have to be a part of the ROFO arrangement and then it can be inducted into the REIT?

Vinod Rohira: So, as per what we had envisaged and projected out right at the start, we are excited about a lot of ROFO opportunities, wherever the assets are a million plus and pre-identified or assets, which will be under-construction in the sponsor group, could be offered first as a ROFO to the REIT. So, a lot of those opportunities exist across markets and we are looking at those assets very closely because that will give us the growth we want for our REIT besides looking at inorganic opportunities.

Mohit Agarwal: So, the way I understand is that it's not necessary to be a part of the ROFO?

Preeti Chheda: All the assets which are above a particular threshold as per a ROFO arrangement would be offered to the REIT. And now, obviously, assets where we have other joint venture partners, those are the assets, which, of course, before they come to the REIT, we will have to discuss. But otherwise large chunk of the sponsor asset should be available to us.

Vinod Rohira: Altimus was in any case being built when we did the REIT.

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

Kunal Tayal: A couple of questions from my side. Vinod, the first one, I did hear your comment that demand generally should be strong as you look out into fiscal '23. Any additional color as to whether the leasing momentum has already picked up or should we expect to just to build up gradually through the course of the coming year? And likewise, by market, would you think that between your two picks exposure areas of Mumbai region and Hyderabad, one could do significantly better versus the other, because there have been certain comments saying that the return-to-office has just been so much stronger a trend in Mumbai, and that might just do better. So, any comments there would be great?

Vinod Rohira: So, the way I see it is primarily the large ticket demand drivers have started coming onto the street to look at quality assets. Most of these guys are looking at something in the pipeline, which gives them 12 to 18 months to start occupying those assets. And following then you will start looking at the 100,000, 200,000 300,000 square foot demand, which is beginning to start to come in most micro markets. So, that is what we had envisaged six months ago and three months ago and that's what's panning out in the marketplace right now. So, you will see both kinds of demand in each of these markets. Now coming back to Hyderabad and Mumbai, our Hyderabad asset has about a million square feet worth of churn opportunity. And we are quite excited actually about that purely because rents have firmed up in those micro markets. So, today, to me, that vacancy is actually far more valuable, because we've already done the hard work of upgrading and now we are waiting for demand to come and grab this asset at the price that we wanted. For the Mumbai asset, like we mentioned to you, we had denotified a million square feet, which is under-construction, we saw significant demand for that asset. Almost half of that is already pre-leased and the rest of the half, I wouldn't be surprised if it gets leased fairly quickly in this financial year while we are completing the building in this quarter. So, the demand is certainly there the way we have projected. We're just waiting for the SEZ clarity on a line for non-SEZ occupiers and then we'll start looking at filling up those spaces as we had envisaged as well.

Kunal Tayal: Preeti, just in terms of the NDCF outlook for the year, should we expect NDCF growth trend could mirror the revenue growth trend? I'm assuming that because of rental advances, that might be one factor which age your distribution. But CAPEX, again, could be on the higher side. So, any color on how could NDCF compare vis-à-vis the revenue outlook?

Preeti Chheda: No, that would not be the case, because the revenue growth where our deductions after NOI before we reach the distributions in terms of PAT, interest, etc., So, the revenue growth will not necessarily translate to a similar distribution growth. But directionally as I said, with the revenue growth happening next year, you should see increase in the distributions as well but it may not be commensurate.

Moderator: We have the next question from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Vinod, my first question was on the Airoli West. So, our vacancy has kind of increased in this quarter there. Just two related questions over there, we have received occupation certificate for half a million square feet. Have the tenants commenced the fit outs there, and when can we see the rentals commence here?

Vinod Rohira: They have already commenced fit outs and we're seeing strong demand trajectory for the balance half a million in that building as well.

Kunal Lakhan: My second question was on your Slide 21 in your presentation, the balance CAPEX number. If you can just help us reconcile that number, like because the 20 billion seems a bit on the higher side, what does this include like because the under-construction projects that you've listed out here, I'm unable to reconcile this number?

Preeti Chheda: Let me just help in reconciling numbers. So, essentially, the balance CAPEX is largely driven by assets, which are under construction and campus upgrades. As you said, the bigger chunk of this is the redevelopment building of over a million square feet, which we are doing at Hyderabad. So, that's taking a big chunk of the cost, it is almost INR 600 Crs out of this INR 2300 Crs. As Vinod mentioned, we added another building in Pune to construction, we have the data center building, which is under construction. We've also taken new upgrades now; one is a Club House in Madhapur and we are also upgrading our Pune asset.

Kunal Lakhan: Preeti, we did an NCD this quarter at 6.35%. That's great. But, how do you see interest rates going on from here in, say, FY'23, and more so in the mid-term?

Preeti Chheda: Kunal, we have seen the interest rates on the rise already and we do expect some more increases as we go along in the year. Now, in terms of our cost of debt, today about 45% of our debt is fixed cost debt. So, there we are not seeing an increase. But on the variable cost of debt, we will see increase depending on the trajectory in which the interest rates rise.

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

Satinder S Bedi: I got two questions. One for Vinod. On the overall return to office, is it slower than what was envisaged six months ago, because otherwise like in last two years the total number of increase in IT staff in large organizations, the kind of clients that you have is typically about 25% higher. But somehow it is not translating into great take up. So, probably, return-to-office is working out slower than was anticipated and if it's going to be something that will get more embedded, because two years okay, people continue to work from home, TCS has 5% return-to-office and so on and so forth. So, if you could give a color on that?

Vinod Rohira: To the first part of your question, out of the two years, 18 months pretty much every one was working from home. In the last six months, you have seen domestic India get back to the desk pretty much between 80% and 90%, all of CBD as you can see the traffic is back on the streets, all the public places are packed, in the airline we don't have space to stand in the aircraft, possibly we didn't have a seat. So, you are seeing everyone back where the action is. From a tech footprint point of view, two things have happened. They have seen tremendous amount of growth in their businesses and they have gone on hiring, the online hiring opportunities given them a better opportunity of expanding the business footprint at that point in time when the need was there. However, they are realizing that for a lot of collaboration and for a lot of ideation, they want their employees back on the desk. They have just been very-very careful about bringing footprints back so that they don't have to trip on their shoe laces which is why you have seen only the tech footprint moving slowly back to the office. Everyone else actually in every other place is back. So, the way we see it is, it's like between March and May, our occupancies within our parks have moved from 14% to 25%. The way we see it is it will move really quickly towards a 50% number. And what is also happening is as you are seeing new growth and new space and retrofitting of current space, they have started accommodating for recreation, entertainment, open spaces and board room for collaboration. So, by default, they are de-densifying very slowly but very smartly on their footprint. Because of that, they are asking for more space that's contiguous. So, we have started seeing even that. As clients are coming back, they are trying to lock up more contiguous space within the neighborhoods for accommodating the same number of employees and the growth in a far more open manner than the densified manner they were used to earlier. So, all of those trends have started becoming visible. It's just that it's moving slowly, but you must remember that the volume of people working in the tech footprint is massive. So, even when I say, 10% change, it converts to 50,000 people, and that's how the number is changing across the board. So, we are seeing the footprint coming back. Our food courts are getting full, people are waiting in line to get their dosa in the afternoon, it's a very pleasant sight in most of our parks now.

Satinder S Bedi: Okay. There was a second part to it, but somehow I seem to have lost the line. The second was our plans to address the challenges at Pocharam & Porur, what is it that we plan to do because the occupancy seems to be struggling and struck?

Vinod Rohira: So, we are not seeing any challenge in Porur. Chennai market is the way it is and we are beginning to see it picking up. So, we are reasonably confident of leasing this space out significantly in this financial year. For Pocharam we have not seen strong demand. I do not see strong demand coming back to that path. We are watchful of it, but I would not give you any direction on leasing that space in this financial year. It is clearly negligible area that we have left there to lease it.

Satinder S Bedi: And the question for Preeti have we done a sensitivity analysis of what the interest rate increase will have in terms of the impact on the distribution because while we do have about 40% fixed, I think it is also reality that almost 40% of that matures in this financial year 23 itself. So, our percentage of fixed will fall and given the way rate interest rates are headed okay so I think there could be a material impact on the DPU so any view on that?

Preeti Chheda: So, we do not have the substantial part of the fixed debt maturing this year because we just had about one issuance which happened immediately after the listing which matures otherwise everything else remains intact. Yes, of course it is the fact that the variable cost debt that something which will see a rise and now it depends on how much of rise do we see in the financial year, but that should not have a very material impact on the overall cost. Some impact will remain because to that extent your interest cost is going to be higher.

Vinod Rohira: I just want to add to what Preeti said what is important in all of this really is speculative supply has paused and debt not going to be easily available. We are seeing a significant opportunity in the micro markets where we are dominant to be able to bring in collaborative supply and take a larger market share going forward. So, actually we are keener to build much faster because we have so much headroom for debt, we want to take that, use that right and as we are seeing rents moving up because of the inflationary pressures, that will be a big opportunity going forward.

Satinder S Bedi: I think rent inflation with the lag is a clear opportunity for the sector it is just that because the occupancy still low so probably it will take about four quarters more to flow, but I think we are bang on, one house keeping question Preeti this Mindspace Malad our revenues from ops has gone up quarter-on-quarter from Rs. 206 million to Rs. 287 million so that is the material 40% jump what has caused this, but the NOI stuck at the same level so NOI is Rs. 181 million has moved to Rs. 186 million anything we are missing here?

Preeti Chheda: Slide #26 that is actually the Square BKC number.

Satinder S Bedi: I am talking of Mindspace Malad the line above that?

Preeti Chheda: I think that is a typo there so this has both the projects. It basically for the SPV Avacado which has both the project Malad as well as The Square BKC. So, this actually is the combination of the two and the BKC building is generating rent now. We have part of the rent which come in this quarter which was not there last year.

Satinder S Bedi: So, you are saying the RFO against Mindspace Malad covers the revenue both from Malad and BKC and the NOI split up?

Preeti Chheda: Yes.

Satinder S Bedi: One final word Preeti I think the NDCF buildup is looking much better this time than previous so compliments for that also. It is much cleaner.

Moderator: Thank you. We have the next question from the line of Shashank Savla from Somerset Capital Management. Please go ahead.

Shashank Savla: My first question is on the occupancy so if you look at the micro market we have seen vacancies increase in Mumbai, Pune, Hyderabad even though the environment is getting better. So, overall, when do you see the actual occupancy improve for the micro market as well as for yourself?

Vinod Rohira: So, most of the micro market we are in if given an example for Pune out of large portfolio that sits for us in Pune we have less than 23,000 square feet of vacancy currently and we are desperately wanting to bring in more supply to lease as fast as we can. So, the Grade A asset will see traction of leasing disproportionately higher to the cumulative supply in the micro market. We have been saying that time and time again and you will see that plan out even more strongly in the coming quarters where Grade A asset will be lapped up and the rest of the asset will still show vacancy. So, while your micro numbers will show vacancy there will be disproportionate occupancy rise on the Grade A in each of these micro markets.

Shashank Savla: For example, I am looking at Madhapur which you have been mentioning is a very strong market, but on the overall macro numbers the vacancy rates has increased from 2.6% in 2019 to 6% in 2020 to 10% and now last quarter increased to 12%. So, it seems that the supply is increasing at the much faster rate even though demand is stronger?

Vinod Rohira: What happens Hyderabad has a unique scenario where there is nothing called FSI. So, the densities vary from site to site and each of those blocks are a million or 2 million that suddenly adds to the supply bucket. They are not necessarily all Grade A so when you start looking at them and breaking them out into Grade A and other supply you will see that Grade A has started to see traction of occupancies which are rising. Our ROFO asset was getting constructed in the neighborhood, a 1.8 million asset right through COVID we started pouring concrete right at the beginning of COVID and even before the asset was completed, it was fully leased to a global 100 client. So, if you are building the right asset in the right micro market you got demand even in those markets, you are already seeing demand rise right now.

Shashank Savla: And overall, your current occupancy level are around 84%, how much time do you think it will take to reach the pre-COVID level of let us say 90% plus?

Vinod Rohira: So, we are hopeful of this financial year getting us in the 90s.

Shashank Savla: And the second question was on the CAPEX bit which the Rs. 23 billion which is mentioned approximately what timeline is that for, is that over the next three years, four years?

Preeti Chheda: So, it will be between three to four years because some projects have just started and they will take about three to four years to be completed, but major chunk will be within the three years you will have some spill over to the fourth year.

Shashank Savla: And is it paid to assume that the CAPEX will be funded from debt so the other revenues would then fall into the NDCF?

Preeti Chheda: That is right.

Shashank Savla: And for the ROFO I just wanted to understand what is the evaluation criteria and as well as what is the funding for the ROFO is that also predominantly through debt?

Preeti Chheda: So, in terms of evaluation, I would say the board and the unitholders would like to see the acquisition being accretive so that is what we as a management also will look at. In terms of how we are going to do the acquisition now obviously in all likelihood it could be a swap of unit of the equity shares, while the other options of debt are available given that the low debt that we are sitting on. We still need to conclude it, currently we are at initial stage.

Shashank Savla: And is there any plan to increase the share of the fixed portion given that going forward there seems to be a rising REIT environment, is it easy or economical to increase that share from this current 46%?

Preeti Chheda: Yes, we would still look at converting some of our variable cost into fixed. We know that we have already entered a rising interest rate situation. So, we still work towards converting some of our variable to fixed let us see how much we are going to achieve, but the plan really is to do little bit more of fixed cost.

Moderator: Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Preeti if I look at the whole of fiscal '22 then there is roughly about Rs. 240 crore gap between the CAPEX and the debt drawn, so how should we think about it in for fiscal 23?

Preeti Chheda: As I had mentioned last time as well there will be little amount of the gap which are still funded out of debt it is going to be a small component, but otherwise you should not see too much of a gap, some will still remain as I have always been maintaining, but major chunk of your distribution should be funded out of FFO.

Sameer Baisiwala: So, how do you plan to make up for this Rs. 240 crores you said some would still be there so maybe Rs. 150 crores, Rs. 200 crores, how will you make up for this big number?

Preeti Chheda: Sameer that is one number which will neutralize eventually over a period as the NOI growth happens on account of revisions, escalations, occupancies, etc. So, that is something which hopefully over the next two, three years we should try to rationalize, but then some bit of this will continue to see in the coming year as well.

Sameer Baisiwala: I am a little confused will this go down substantially in fiscal '23 or will it take two, three years so I am not very clear on your answer on that?

Preeti Chheda: So, I would not say it will go down substantially from where it is today, but it will definitely see a decreasing trend over the next two to three years as I said. So, I would not say that will see a straight big reduction, but it will neutralize over the next two to three years.

Sameer Baisiwala: And is this what you had in mind when you were answering previously that the rental growth or the top line growth may not be necessarily translate into NDCF growth what were the big item out there?

Preeti Chheda: Some bit of that, but also other parts also come in like you will have interest cost increases, tax, etc., all those also come into play that is why you will not see the same growth in NOI translating to an NDCF growth.

Sameer Baisiwala: And another question is on Airoli East we have roughly about 2.1 million square feet which we need to develop so what are your thoughts on this rough timelines, when do you expect to start on this?

Vinod Rohira: While it was 2.1 million square feet the valuation we are taking only for approximately 800,000 odd square feet that still gives us room to build more and we want to take that up we are just waiting for the SEZ regime to settle in so that we can bring in a non-SEZ building into that whole land mass.

Sameer Baisiwala: Does it mean that you are taking only a small portion and valuation is one thing, but you have disclosed a much bigger volume number so are you tentative that the balance may or may not happen?

Vinod Rohira: As you can remember we had just entered into COVID and so to be conservative we have taken 800,000 square feet for the value while the potential was to build 2.1. Whatever gives us maximum value accretion we will exactly do that for the asset. So, we are seeing how the demand trajectory is moving nothing stops us from increasing the density if we see the demand going to give us return.

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

Abhinav Sinha: Just had a few clarification so did I hear correctly that you are expecting occupancies to rise through 90% odd pretty soon may be in the next one, two years is that correct?

Vinod Rohira: You mean to say occupancies from the current occupancy of area yes physical occupancies I think will be around the 50% and 60% over the end of the financial year.

Abhinav Sinha: Physical occupancy will be how much?

Vinod Rohira: Physical occupancy today is 25%, the way we see it will be between 50% and 60% by the end of the year.

Abhinav Sinha: And the committed occupancy will rise closer to 90% odd?

Vinod Rohira: That is correct.

Abhinav Sinha: Second question on the various micro market and the rents have been flat understandably also, but which are the ones that as of now you are most positive on and where we can see the movement say upward in the next three, four quarters?

Vinod Rohira: All of these markets are seeing a strong trajectory of rent movement.

Abhinav Sinha: So, uptick of 5% odd is likely in the year or you are hoping for higher numbers?

Vinod Rohira: I think the markets are getting stronger. They want quality real estate; it is not really about rent and quality real estate is attracting most of the tenants and you are getting the value you want once you are able to offer a quality offering. So, Grade A is definitely going to see a rise in rent.

Moderator: Thank you. Ladies and gentlemen as we have no further questions we will now close the Q&A session. Ladies and gentlemen on behalf of Mindspace Business Parks REIT that concludes this conference. Thank you for joining us and you may now disconnect your lines.