"Mindspace Business Parks REIT's Q3 FY-22 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 Mindspace Business Parks REIT's Third Quarter Financial Year 2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Kulkarni. Thank you and over to you, sir.

Kedar Kulkarni: Thank you and good afternoon, everyone. Welcome to the Third Quarter Financial Year 2022 Earnings Call for Mindspace Business Parks REIT. At this point, we would like to highlight that the management may make certain statements on this call that may constitute forward-looking statements. Please be advised that our actual results may differ materially from these statements. Mindspace REIT does not guarantee these statements or results and is not obliged to update them at any time. We would like to reiterate that, the acquisition of Asset SPVs by Mindspace REIT was effected on July, 30 2020. Consequently, consolidation of financials of these Asset SPVs with Mindspace REIT has been done effective August 01, 2020. Condensed Consolidated First Nine Month and Full Year 2021 numbers therefore reflect five months and 8 months financial performance of the 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 Q3 and 9M FY21.

I would now like to welcome Vinod Rohira, 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.

As envisaged during our last quarter earnings call, the sectoral tailwinds continued during Q3 FY22. We witnessed leasing of c.1.8 million square feet in the December quarter taking the cumulative leasing to c.3.8 million square feet in the first nine months of Fiscal Year 2022.

The preference of occupiers towards well managed, top notch, Grade A assets which offer the best in terms of health, safety, sustainability, and wellness has grown stronger and we have benefited immensely from this shift. During calendar

year 2021, we were able to capture a significant market share of the gross leasing volumes recorded in our gateway cities.
Well-being of our building occupants has been at the core of our health and safety initiatives, and we continue our journey towards providing our occupiers with best-in-class assets. Our efforts towards this cause continue to be recognized by the prestigious British Safety Council. We have won 7 'Sword of Honour' awards across 5 of our business parks which recognize and reward those organizations that have reached the pinnacle of health, safety, and environmental management.

The last quarter of 2021 saw a healthy pickup in leasing momentum, however, the third wave led by the Omicron variant has caused a temporary disruption. Unlike previous waves, the restrictions enforced this time were not akin to a full lockdown, and most states permitted almost all economic activities including offices to continue. While economic activity continued to remain stable and resilient with technology companies continuing to grow and perform, the 'back to office' plans saw a temporary deferral. Compared to the impact of the second wave of infections, this wave has been thankfully largely mild and has not caused a strain on the healthcare infrastructure having peaked much faster in-line with the trend observed across several nations globally. Observing the pick-up in the leasing momentum post the decline of the second wave, it is evident that offices continue to be the mainstay in the post-pandemic era as occupiers and employees alike have recognized the importance of having a collaborative work environment and the requirement for deeper engagement. With the third wave already on the decline, we are confident that occupiers would resume their 'back to office' plans in the coming months.

On ground, we continue to see large technology companies evaluating spaces for new expansion and consolidation requirements. The leasing momentum that we have witnessed across our parks in this quarter is in tandem with the growth of technology companies and global captives. The IT industry and GCCs in India have hired a record number of people over the past 1.5 years to cater to the changing technology landscape and increased focus on digitization. Few companies have already started formulating their footprint expansion plans to accommodate the increased headcount. Many new RFPs have started floating across micro-markets and we expect to see this activity assume greater momentum in the coming quarters.

Coming to the updates on specific micro-markets:

The established business districts of Hyderabad are witnessing recovery in demand, as pre-commitments and additional space take-up from GCCs continue to provide momentum to the absorption and we are excited about the mark-to-market opportunity for our portfolio at Madhapur has on offer.

In the Mumbai Region, Thane-Belapur Road micro-market is expected to witness three-dimensional demand driven by fintech, support activities of MNCs and data centers. The recent budget announcement conferring 'Infrastructure status to Data Centers' will provide an impetus to the development of the sector. This move coupled with data localization norms and upcoming launch of 5G is expected to enhance the attractiveness of our assets in the Mumbai Region for data centers. Also, the budget announcement to reform the SEZ regulations to - aid 'Ease of Doing Business' and allowing inclusive participation of domestic businesses would augur well for the demand for our SEZ spaces in this region.

Pune is witnessing strong traction from technology companies, and we expect this to lead to a buoyancy in demand. Our assets across the city have evinced strong interest from occupiers which has helped us achieve robust leasing and occupancies. We have also successfully pre-leased our under-construction asset which is a part of a larger business park at Kharadi, Pune to a leading e-commerce company. On the back of these encouraging trends and limited space availability at our parks, we are looking at advancing our future development pipeline to bring in new supply early.

On the back of these macro tailwinds and strong leasing performance demonstrated by our team, we are gearing ourselves to cater to the demand upswing. We are exploring construction and redevelopment opportunities at our existing parks and continue to evaluate attractive inorganic opportunities from time to time. Our under-construction pipeline now stands at 1.8 million square feet. In addition, we are seeking necessary approvals for the redevelopment of c.1.3 million square feet at Mindspace Madhapur, Hyderabad.

We are excited to have received the ROFO notice from the sponsor for Commerzone Madhapur located in one for the prime business districts of Hyderabad. It is a substantially complete and fully pre-let c.1.8 million square feet asset leased to a marquee tenant. We shall evaluate this and such other opportunities in the coming months.

On the financial performance, our Net Operating Income for the quarter grew by 3.4% sequentially to INR 3.7 billion. The 9-months NOI stood at INR 10.9 billion, recording a growth of 7.3% YoY. Our collections have continued to remain strong at over 99% throughout the pandemic, we continue to focus on having high-quality tenants in our portfolio.

Our distributions for the quarter stood at INR 2.75 billion or INR 4.64 per unit.

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

- We achieved a gross leasing of c.1.8 million square feet across 26 tenants for the quarter ended December 31, 2021. Of this c.0.8 million square feet was on account of re-leasing and c.1 million square feet was under-construction, vacant and new area leasing.
- Average rent realized on this c.1.8 million square feet of leasing was INR 64 per sq. ft. per month.
- We achieved a re-leasing spread of 27.8% on the 0.8 million square feet area re-leased.
- We pre-leased our entire under-construction building of c.0.7 million square feet at Commerzone Kharadi, Pune.
- In the first 9 months of this financial year, we have achieved leasing of over c.3.8 million square feet across our portfolio.
- 82.1% of the leasing during the quarter was to existing tenants while balance was to new tenants.
- Committed occupancy for the December quarter stood at 84.6%. The c.0.7 million square feet of pre-leasing of under-construction area at Pune done during the current quarter and the pre-leasing of under-construction area done in earlier quarters are not factored while computing committed occupancy. These areas will add to committed occupancy post completion.
- The in-place rent in our portfolio has grown from INR 58 per sq. ft. per month in previous quarter to INR 59 per sq. ft. per month at the end of December quarter.
- Of the total leasable area of 31.3 million square feet, our portfolio has 24.2 million square feet of completed area constituting to ~91.8% of our portfolio value. 1.8 million square feet is currently under construction, and we have another 5.3 million square feet available in the portfolio for future development. The portfolio is leased to more than 170 marquee clients with a weighted average lease expiry of 6.9 years.
- One of the buildings at our project Mindspace Madhapur has won 'Best Commercial Development Award' at the 'CREDAI's CREATE Awards 2021'.

We continue to focus on building an ecosystem that prioritizes on environment, social wellbeing, and governance (ESG). Health & safety, sustainable development and mainstreaming the principles of rightful business conduct continue to be our primary driver. We are certain that these measures will strengthen our position as a responsible entity, committed to creating a measurable and positive impact.

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

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

On the financial performance, we closed the third quarter of the financial year 2022, with a Revenue from Operations of INR 4.4 billion. Net Operating Income for Q3 FY22 stood at INR 3.7 billion, a 3.8% YoY increase over NOI for Q3 FY21 and a 3.4% increase on a sequential basis. The 9-months Net Operating Income stood at INR 10.9 billion, a growth of 7.3% YoY. We continue to maintain NOI margin at 80% plus.

We announced a distribution of approximately INR 2.75 billion i.e., INR 4.64 per unit for the quarter ended December 31, 2021. The distribution comprises approximately 93% i.e., INR 4.31 per unit of dividend, which is not subject to tax in the hands of unitholders, and approximately 6.9% i.e., INR 0.32 per unit of interest and other income of approximately 0.2% i.e. INR 0.01 per unit. This translates to an annualized distribution yield of 6.7 % on the issue price. With this, the total distribution for 9M FY22 is approximately INR 8.2 billion i.e. INR 13.8 per unit.

On the funding side, our leverage on the portfolio on a consolidated basis stood at 15.8%. Our net debt as on December 31, 2021 was INR 40.5 billion. We have undrawn committed lines of INR 2.1 billion from financial institutions. Our low leverage levels and the strength of our balance sheet provide us the flexibility to pursue both organic and inorganic growth opportunities.

Post the quarter end, we raised INR 5 billion through issuance of listed non-convertible debentures at an attractive coupon of 6.35% per annum. With this our pro forma average cost of debt has further reduced to 6.6%. We have achieved a substantial reduction of c. 260 bps in our average cost of borrowing over March 2020. We continue to pursue opportunities to further reduce our borrowing cost.

Board has approved sale of c.40 acres of land at Mindspace Pocharam, Hyderabad, as per the terms of MOU as was disclosed in our IPO offering documents.

To conclude, we expect the improving market environment and the positive leasing trends to help the growth of NOI and distributions from the portfolio in the coming financial year.

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

Moderator: Thank you. 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.

Adhidev Chattopadhyay: My first question is on this early releasing you have done in FY23 and FY24 of almost 0.5 million square feet. If you could just help us understand, is it like initiated by the tenants and if so, then what is the thought process and versus what you are expecting the lease rental whenever these would come up for expiry, is the rent which you have achieved now higher or lower or on the market. If you just help us understand?

Vinod Rohira: So, primarily, it's a very healthy business and a very happy moment when you have a client who's been with you for 10+ years wanting to continue and renew and who's in this environment seen visibility of stability and growth and wants to renew early instead of renewing later. So, we would grab that opportunity with both hands. Having said that, we have got the mark to market rents that we were looking for from this tenant and in fact prepone that number, gave them the average values for the one-year preponement, accordingly adjusted for that rent, and renewed early. So, NOI went up while the rent that we got from them is the expectation of rent that we were expecting from that space on renewal. So, it was a win-win for both.

Adhidev Chattopadhyay: Okay. And sir could you share what is the releasing spread we would have achieved across this deal?

Vinod Rohira: It's about 28%.

Adhidev Chattopadhyay: Okay. And this is included in the nine months number just a clarification this 37% odd releasing spread we have for nine months?

Vinod Rohira: Yes, so whatever gets released is factored in this.

Adhidev Chattopadhyay: Okay. So, are we expecting many more such early releasing to happen now, considering how the market is shaping up with thing open?

Vinod Rohira: So, a lot of times, this is part and parcel of business, you would always find a mix, some tenants start talking of things early. And some tenants talk closer to expiry, but those who want to renew are far more advanced in their discussions and they come quite early in the day to renew. So, this is normal.

Adhidev Chattopadhyay: Okay, this is normal. Sir and just the second question as heading into FY23, the expiry which are there, the balance expiry so how confident are we of retaining now considering the improvement?

Vinod Rohira: So, we have visibility of 60% odd of that renewal clarity with us out of area coming for expiry in FY23.

Adhidev Chattopadhyay: Okay, so for FY23 out of the 1.4 msf?

Vinod Rohira: Out of 1.4 msf we already pre-renewed some so what we are left is 1.1 msf, from there we already have 60% visibility going forward.

Adhidev Chattopadhyay: Okay, sir sorry just I got confused in numbers. So, you say it is 2.5 msf which is expiring in FY23 the area?

Vinod Rohira: No, out of 1.4 msf area expiring in FY23, 0.2 msf we already pre-renewed early so from the 1.1 odd area, we have 60% visibility of that getting released already

Adhidev Chattopadhyay: Okay, so just four lakh square feet of area is the balance which needs to be?

Vinod Rohira: That's right. and we have the whole year for it.

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

Puneet: Just a bit of clarification on FY23 expiry. So, you said number is 1.4 msf, but as per the presentation only 0.23 msf of FY23 which is pre-leased. So, does it still mean that you have to lease 1.1 msf or is it 1.0 msf can you just clarify that?

Vinod Rohira: Go with 1.1 msf as a gross number from there we have visibility of 60% already.

Puneet: From 1.1 msf, 60% visibility

Vinod Rohira: On 1.1 we have 60% visibility of renewals already.

Puneet: Okay, understood that's helpful. The second is, if you can talk a bit about Hyderabad as a market, the vacancies have gone up and a lot of construction is also due, how are you looking at your position in Hyderabad market, if you can qualitatively comment more on supply coming from, other players, the demand side as well?

Vinod Rohira: So, cumulative first, I'll speak for myself Puneet. We started the year with almost 1.2 msf worth of vacancy and, will end the year with 0.9 msf of vacancy this year for Mindspace Madhapur. We see a far healthier environment for our assets in Hyderabad and we are eager to start construction faster on the 1.3 msf because our under construction ROFO asset also has got pre-leased. So, we want more supply of our grade A assets. While yes, there is an overhang of visible vacancies in the micro market, each asset is going to be looked at very differently, as we have been mentioning to you in the past as well, that tenants are far choosier about what they want to pick on and what suits them best for their business and if that asset stacks up, you're getting it leased that's what we're seeing.

Puneet: Understood. So, even the new construction is not all grade A quality?

Vinod Rohira: There are a lot of aspects that may have got missed out in the volume development that generally took place prior to the pandemic. Some of those volume developments may or may not stack up for the wellbeing health and safety protocols.

Moderator: Thank you. We have the next question from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Sir on this ROFO asset just a couple of questions, would it be possible to share how much annual rental has been leased at currently?

Vinod Rohira: Unfortunately, we can't give you those numbers Atul, but happy to address any other question around.

Atul Tiwari: Okay. So, what is the kind of timeline we are looking at, to kind of complete or evaluate this deal any idea on that?

Preeti Chheda: Atul, Preeti here. So, we have got the board approval to start our evaluation, I would say between now and the next quarter is when we'll be evaluating and then taking it back to the board.

Moderator: Thank you. We have the next question from the line of Rahul Marathe from ICICI Prudential Pension Funds. Please go ahead.

Rahul Marathe: So, sir my question is regarding related party transactions that we are seeing in this quarter, one is the sale of that land of approx. 40 acres and other is with respect to the hotel deal, so if you could just throw some more clarity on both these transactions?

Preeti Chheda: Hi, Preeti here. So, firstly, regarding the 40 acres at Pocharam, this transaction was already envisaged at the time of our offering, this has already disclosed in our IPO document, but we were awaiting certain SEZ de-notification, we could not conclude. We have now received the notifications. And therefore, we will be concluding this. So, this is 40 acres is a part of our Pocharam Mindspace development in Hyderabad. And these 40 acres was already contemplated to be carved out. So, we are just concluding the transaction which was already disclosed. So, that's on Pocharam. The second one was, we also had closed another MOU, which we had signed with Chalet Hotel for a small 2-acre piece of land at our Mindspace Airoli. This is again, a part of our offering disclosure. Again, we are awaiting certain approvals there. So, in the meantime, we've extended the MOU.

Rahul Marathe: At what valuation is that 40-acre deal happening?

Preeti Chheda: So, that's at 80 crores which has been disclosed in the offer document

Rahul Marathe: So, for unit holders, will the proceeds be passed on in the form of distribution or how it will happen?

Preeti Chheda: So, if there is no alternative immediate investment plan, then we would make this a part of the distribution. We'll have to just evaluate that but that's broadly how it will work.

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

Kunal Tayal: Two questions from my side. First, I wanted to get an understanding lease you're expecting on your SEZ assets post the development of the budget. And then the second question was, around the ROFO opportunity, I guess we broadly know that some of the considerations include that the acquisition ought to be accretive. But given that, the way the interest rates probably are right now and look to increase sometime soon. Would there be a special consideration you would bake in for such a scenario maybe have more than normal expected accretion from an acquisition. Thanks.

Vinod Rohira: Hi, Kunal. So, to address your question on the SEZ, it's broadly in line with what we were envisaging in the legislation that is likely to come through will allow us far greater flexibility to have rupee billing and co-exist equivalent of STPI occupiers or on the de-notified portion which will hopefully be unit wise, and that will just open up the supply to be offered to non-SEZ demand, which we've seen very well turn out for us from the building de-notified in our Airoli Park last year. And we've seen huge amounts of traction of demand there and done significantly well on our leasing in that building as well. So, we are hopeful of that coming through soon. On to the second part of your question, on the ROFO asset. Primarily, this is a grade A asset which was customized and built to suit for a very high-end technology company who has just taken this entire building up for their primary office in India and in the right micro market of Madhapur. It's a very attractive asset from its intrinsic value and from the way it has fanned out from a value perspective we would be excited to look at that ROFO opportunity. We're still very excited about looking at this asset and its value being accretive for the lease.

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

Shashank Salva: My first question is on the mark to market potential, where if I see for the last six quarters, it has been gradually declining, like from 17% to now 7%. So, can you throw some color on that and as to what's driving that, because I thought some of the other projects which might be expiring would stabilize the mark to market potential going forward?

Vinod Rohira: Yes, so this mark to market was really in line with the estimates that we had given forward in terms of the broad range we were hoping to achieve. As the markets are firming up and getting stronger, we see a better opportunity going upwards from there, but so far, we've just maintained this.

Shashank Salva: Right. And the second question was on the distribution. So, if I look at the NDCF levels, there is an inflow from debt of 2,195 million, versus the CAPEX is around 1,500 million. So, I was just trying to wonder if part of the dividend is being funded by increasing debt?

Preeti Chheda: Hi Shashank, Preeti here. To answer your question. This is something that we've been talking about in the previous calls as well, there's always some amount of phasing which is happening in terms of the cash flow. So, this time also some of the reasons why you see this gap between the CAPEX and the overall debt. So, we've had certain elements. One of course is the fit out which are been carried out for tenants, while we consider it as CAPEX, for an accounting purpose gets clubbed under operating cash flow, so some amount is there. And for us all our CAPEX, including fit out CAPEX generally is funded out of debt, so you will have to look at both together so that's one. Also, because we've done extremely good leasing, in this quarter we've had incremental brokerage payout as well. Another element has also been because of certain power disruptions, which all of us have heard of in the last quarter, the power costs have gone up. But given our arrangement, the true up of this can recover back from the tenants, that happened subsequently. So, to that extent you have an interim, I would say a mismatch. So, all these factors have contributed to this gap. But again, as I said, because these are all phasing issues, we generally try to normalize this, that is the reason you are having this gap in this quarter, and of course there are again, certain prepaid expenses for both quarters which get paid and the starting of the second half. So, all these factors have contributed to this gap.

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

Sameer Baisiwala: Preeti just picking up from the previous question, which is in your EBITDA to NDCF flow. It's not the only quarter where we have about, 50, 70 crores excess borrowing versus the CAPEX. And you do see some of these cost heads every quarter. But this has been sort of there for last, all the last five, six quarters that I can see. So, how should we model this, did you think this is something that's a recurring thing will continue or at some point in time, this should taper down?

Preeti Chheda: So, Sameer just to answer, let me just start with the second half of last financial year when we did our first distribution. At that point in time, we did the distribution only in the second half. And in fact, I've mentioned even in the earlier calls that a big chunk of our tax refund which we envisaged in the second half, we got in the first half, which we use to repay down the debt and therefore we had to borrow, otherwise in that financial year, there was absolutely no gap in our operating cash flow to meet our dividend. Now, coming to this financial year, as you rightly said, there have been a gap in all three quarters. Some of the gap we had emphasized even at the time of our offering, which I had mentioned last time, and we had almost INR 35-40 crore of tax refunds, which were again supposed to come in the first quarter of this financial year, which we got earlier in the last quarter of pervious financial year. Because obviously, once we get the cash, we use that money to pay down the debt. And therefore, in that quarter when we are doing distribution, we must draw the debt back. That's why you see some, debt being drawn to fund the distributions. Because every time we get some earlier cash flows, we use that money and pay down the debt. And sometimes if we are falling short in this month, and we know that cash flows coming in the next, then we make sure that we normalize. So, that's the reason we are seeing these mismatches. But again, Sameer to broadly answer your question some was envisaged given at the time of IPO, and some of these are phasing issues which should normalize as we end the year.

Sameer Baisiwala: Okay, that's fine Preeti. It would be good if you can have some disclosures around this. If it's just the timing issue that's fine, some cash come early, some late, etc. So, that clarity if you can provide in the presentation, it would be great, that's the request.

Vinod Rohira: Sure, we'll do that.

Sameer Baisiwala: And the second question is on the ROFO assets. How do you plan to fund that?

Preeti Chheda: So, Sameer, the entire structure is something that we will start working on and evaluating but one form of this acquisition could also be swap of units of the SPV coming in. So, that also could be one probability, in which case we may not need any capital for the acquisition. So, that's something still under evaluation we will come back to you guys once we've completed it.

Sameer Baisiwala: Sorry Preeti, so did you say it would be by issue of units, is that what you said?

Preeti Chheda: Yes, so I am saying one option which is possible could also be swap of units. So, in which case, we will not actually have any capital requirement. So, that's again still under consideration. Once we evaluate the asset and get to a final stage, we have a better clarity

Sameer Baisiwala: Okay, that's fine. And the other question I have is, with regards to 85% occupancy. So, we have got about 4.5 msf, which is sort of vacant?

Vinod Rohira: c.3.6 million.

Sameer Baisiwala: Sorry, my bad 3.6 million. So, between Hyderabad and two Airoli parks. So, how do you see this take up going forward and, is it also related to physical occupancy, employee footfall coming back and what's the visibility on that. Thank you.

Vinod Rohira: So, like the way we had envisaged, and we saw that in the previous quarters, it's panning out in the similar direction so maybe we're seeing the large RFPs first come through. And those larger RFPs will set the trend for demand for build to suits or customization or larger footprint for 12, 18 months to 24 month business plan for most of these occupiers. And along with that, you will start seeing the pickup of the 50,000 and 100,000 square feet occupiers and the immediate need for growth, etc. When physical occupancy starts rising, which I believe will happen between March and May, that's the time you will start seeing the smaller office take up as well pick up. In Hyderabad, when demand starts coming in, we will be able to encash the opportunity or mark to market. From Airoli perspective, we have seen within the non-SEZ space demand picking up steadily and nicely and occupiers are looking at that space. We've done significantly well, much more than we had envisaged at the beginning of the year. And we are excited about the SEZs allowing de-notification to happen to accommodate those kinds of occupiers. So, while that will go slower till the de-notification comes through, we have some tailwind here because we have some under construction supply available in the non-SEZ, which we will quickly keep leasing. And are hopefully by then we will get the catch up on the supply of the SEZ becoming de-notified so that the continuity for our business remains in that space. So, you'll see a slight lag there, we expect to see above 90% occupancy, as we had mentioned even last time, by the end of next financial year.

Sameer Baisiwala: Okay, that's great. And Vinod would you say that, in next two years or whatever timeframe your steady state occupancy should be what 97%, 98%?

Vinod Rohira: We would all hope for all those numbers. Yes, absolutely.

Sameer Baisiwala: So, on Airoli East I think about 2.1 million square foot ability to do Brownfield, any thoughts on that?

Vinod Rohira: So, we are looking at a lot of data center opportunities while anyway is the value that we have embedded and this is nothing so whatever comes is bonus in that sense, but there is a combination of factors we are looking at as things stabilize, we will come back with those things.

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

Mohit Agarwal: My first question is regarding how do you see the FY23 distribution now with FY22 it looks like it is going to be around 1,000 crores given that we have had a similar run rate for the first three quarters could you give a sense and we have seen about a 10% increase in our blended rentals over the last four, five quarters the occupancy level seems to have broadly stabilized, what kind of growth do you envisage in the next year?

Preeti Chheda: So, I would not be able to put a number to this, but directionally we should see a growth in the distribution vis-a-vis FY22 given that of course if we done good amount of leasing in this year and the rentals of those leasing should start flowing in the coming quarters and of course the routine growth in terms of escalations mark-to-market which will come. So, directionally yes, we should be seeing a growth in the distribution, but I would not be able to put a number to that.

Mohit Agarwal: But at least like we have seen 10% increase in blended rentals at least that kind of distribution growth should we expect more than that?

Preeti Chheda: Honestly, we would not be able to comment on the percentage growth I can only say it directionally.

Mohit Agarwal: My next question is on the Hyderabad market again in the presentation we have mentioned that there is about 5 to 6 million square feet of RFPs and Vinod has also mentioned that large deals are now coming back, is it possible to give a sense of how this compares to the pre COVID times broadly where are we in terms of the interest and the RFPs and inquiries if that is possible?

Vinod Rohira: So, in the peak which was just pre-COVID Hyderabad ended up with 14 million square feet of gross leasing.

Mohit Agarwal: This is roughly about less than about 50% of where we were in the pre-leasing?

Vinod Rohira: Currently that is right.

Moderator: Thank you. We have the next question from the line of Satinder Bedi from Eon Investment. Please go ahead.

Satinder Bedi: First question is to Vinod I could not get the full hang of the SEZ and non SEZ in terms of the budget because Airoli West like you mentioned in the last call that once this regulatory change or legislative change happens and Airoli West should see better time, so I just wanted to understand what is the update on that?

Vinod Rohira: So, we are waiting for the announcement to come through. The pointers that have come out from the various government agencies seem to suggest that they are looking at these as employment generation centers and they want to promote and grow these businesses in these micro markets and these ecosystems and they want to be facilitators for this allowing for flexibility of business to grow and coexist similar to the regime that was earlier there in terms of unit wise SEZ STPI units or EOU units which could coexist in the same building as units and allow for rupee billing and allow for domestic billing etc. So, all of that as a combination is being worked out, we are very hopeful that it will come out in that shape and form.

Satinder Bedi: So, this flows from the budget announcement your understanding is from the budget announcement?

Vinod Rohira: But they are working on this in any case in parallel and they have said on or before September 22 they would have an announcement.

Satinder Bedi: Next question is to Preeti we have a floating debt of about 3,300 odd crores and the general market consensus is that the interest rates are at the lowest possible and they are probably headed for a move up now, any thoughts on converting this into fixed or something like this locking this given that probably consensus due to that we are close to the bottom?

Preeti Chheda: So, as we have talk, we have already converted almost 50% of our debt into fixed cost debt and as you rightly said we are at the bottom of the interest rate cycle, and we do expect that in the coming financial year. There could be rise in the interest rate, so we are working towards converting a little more of our floating calls debt into fixed cost. So, that something which is already in the book.

Satinder Bedi: And Vinod regarding your square BKC when does the rent start because it already moved out?

Preeti Chheda: First quarter next year.

Satinder Bedi: So, will it be fair to assume that maybe 50%, 60%, 70% of this rent will incrementally show down to the distribution is that a fair assumption to make that in the next financial year the rent at 270 bucks for 0.1 million into 12 months and about 60% of that should show down to the distribution itself, is that a fair assumption to make?

Vinod Rohira: Approximately in that range I cannot give you an exact number on that distribution, but yes.

Satinder Bedi: Just a small comment taking off from what Sameer also pointed out earlier is the great if the amplification of this NDCF Preeti could be provided in terms of the debt draw down I think it is of a lot of presentation and really confidence in the whole thing.

Preeti Chheda: Certainly. Thank you.

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

Adhidev Chattopadhyay: I am saying in your Gigaplex asset the current occupancy is around 60 odd percent whereas the committed occupancy 67, so when does this gap get breached means when do the tenants start when does the rent start of the balance 7% of the area which is there the committed occupancy?

Preeti Chheda: So, generally whenever we sign the rentals, it generally takes about 4 to 6 months for every tenant to do the fit out so that is exactly the timeline that we expect further rent to start?

Adhidev Chattopadhya: This is something which will start flowing from second quarter of FY23 is that a correct way of looking at it.

Vinod Rohira: Between first and second quarter.

Adhidev Chattopadhyay: Similarly, for this Kharadi the pre-leasing we have done for when will the asset become operational?

Vinod Rohira: The approximate rents in this asset may start from Q4 FY22.

Adhidev Chattopadhyay: Q4 FY22 is that the other way to look at it?

Vinod Rohira: That is right.

Adhidev

Chattopadhyay: So, the occupation starts 6 months prior to that?

Vinod Rohira: Occupation is scheduled by the end of Q3 FY22.

Adhidev Chattopadhyay: And sir this pickup in leasing so especially so the rent-free period do you again see them now coming down from where it was now because the pandemic we are giving higher rent free which is across the board?

Vinod Rohira: It is larger clients require larger amount of time so that is what getting translated. When the smaller areas start getting picked up you will anyways that see that the market has really picked up. Whatever is fair and justified in the current scenario is what will become as rent free they continue to be in part and parcel of business. There is no dramatic difference in what used to be done and what is getting done.

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

Sri Karthik: I know you clarified regarding the flashback there could be timing difference with respect to tax receipts on NDCF, but even if I take a 5 quarter view almost 20%, 25% of our distributions are being funded by fund, so if you could further clarify as to why such a large portion of it is seen funded through debt draw down that is one, the second question is if probably I might have missed it but the pricing of the land transaction is it in line with the recent Telangana governments land fill price of about roughly 40 crores and acre?

Vinod Rohira: This is Pocharam which is Eastern Hyderabad on the other end of Hyderabad if you study that micro market, you will probably have a different view on valuations completely from what you are envisaging for Madhapur etc. We have 4 lakh square feet lying vacant there and we find it difficult to lease and the rent are low in the range of 20 and 25.

Sri Karthik: And the price at which the transaction has happened if you could clarify that?

Preeti Chheda: So, the transaction is at 80 crores for 40 acre this is about 2 crore per acre. This is what we would disclose at the offer document as well. So, coming back to your first question some of the things which I had mentioned earlier as well. So, part of this is any which ways envisaged driven at the time of our projected numbers during the IPO and the balance is because of certain cash flow savings where like for example we are getting some of the tax refunds which are coming in earlier as compared to the quarters as we had envisaged, some with a working capital which is coming up in advance. So, some CAPEX wants to continue to remain, but some of the gaps by the time we end our financial year some of them should normalize.

Sri Karthik: But at about 20 plus percent of the distribution are being funded by debt is that the correct assessment?

Preeti Chheda: Actually, that is not the way you should be looking at and since you mentioned five quarters. The first two quarters if you looked, we had almost received close to about 100 crore tax refunds last year in H1 which was contemplated in H2. So, those were our cash flows plans for H2 which we received well in advance, and we have paid down the debt. So, obviously we had to draw that debt back when we were doing distribution for H2. So, large amount of that number happened in H1 which we took by way of debt in H2. So, similarly again when you are looking at this financial year we have almost as I mentioned 30 crore, 40 crore of tax refunds which came in advance we have certain brokerage payout which has happened because huge leading that we have done in these quarters which we have paid this year. We have had certain power cost which I was mentioning which will be threw up only in the next financial year so that gap may remain for a little longer. So, it is a combination so it will be right to say that 25% is funded out of that. It is more of managing the cash flows as and when they come when we get the cash flows in advance as a prudent practice, we will take that money and pay down the debt and draw that back when we needed.

Moderator: Thank you. We have the next question from the line of Rajan from Elite Holder. Please go ahead.

Rajan: Actually, I wanted to understand that the ROFO assets that we are getting, is there any possibility of we are finding it totally through debt?

Preeti Chheda: So, as I had mentioned we are just going to start the evaluation now that we have got the board approval but having said that one of the options which we have is swap of units of the REIT. It is unlikely that this will be fully funded out of debt, but as I said we have just started the evaluations and we will take the next few months to evaluate what is the most appropriate capital structure and the method of acquisition.

Rajan: Because recent days we have got higher prices so we can be diluting this so that is first thing second is about the lease agreement like say what type of escalation clauses are there three-year, five year I mean in general I want to understand?

Vinod Rohira: They are standard escalation clauses as they used to be in most cases between 13% and 15% every three years and it is moving towards the trend where some leases were able to even annual escalation.

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

Shashank Savla: I wanted to understand the committed occupancy and the occupancy if I look at the last four quarters the committed occupancy has been between like 84% and 85%, but the actual occupancy has not improved so this was coming back to your previous statement that it takes like 4 to 6 months for that committed occupancy to flow into the occupancy, so why have not we change that actual committed occupancy is flowing into the occupancy numbers?

Vinod Rohira: So, there are two parts to this one part obviously is whatever is take for example when you are leasing out something at the same time you have a customer who is exited and terminated their lease till they are physically occupying it does not factor into your vacancy while we may have announced their exit because when we see the notice is generally between 4 and 6 months after the tenants walks away. So, the impact starts to show in your occupancy vacancy numbers only after that 4 or 6 months or tenure gets over and that is when it may drop. At the same time every quarter you are leasing fresh new space as well as release of vacant space and that vacant space factors for committed occupancy at the same store and if there are new or under construction that gets added at a little date. So, it is a constant sequence of leasing that takes place there are separate operations that are taking place parallelly. The effect is shown to you on the presentation every quarter and sometimes when the LOI is signed which is binding till the time it does not move to a binding agreement that is registered it stays as occupancy committed occupancy versus confirmed only when we do a registered document so that is where the gaps are.

Shashank Savla: And just trying to understand given the current sort of environment, would we see any meaningful improvement in the actual occupancy numbers in the next couple of quarters?

Vinod Rohira: We should see, when we discussed about the September quarter, we were at 7% at the end of that September quarter while we discussed with you towards November & December we had already reached 14% occupancy physically. After the Omicron wave hit us occupancies have drop down, we will see them catch up from March to May.

Shashank Savla: And any change in the rent or incentives which you give given the improving environment?

Vinod Rohira: For us the selection criteria about the tenant what is the quality of tenant and their stickiness on the portfolio. It is a win-win we want to take volumes, take the right tenant, and move forward is business. As well as the numbers for Grade-A assets are concerned, the numbers are going to thin out in terms of supply over the next few quarters.

Shashank Savla: One final question just wanted to understand on the taxes so what exactly are therefore like because for the REIT given that they have some tax advantages I just wanted to clarify what the taxes paid for and what sort of freight should we assume going forward?

Vinod Rohira: So, you mean taxes at the company SPV level or taxes in the hands of the unitholder.

Shashank Savla: So, taxes which you show at the consolidated level at the corporate level?

Preeti Chheda: So, essentially these are the taxes which the asset SPV is landing up with. So, these taxes depend on each of the SPV because some of the SPVs still enjoy tax benefits because they are SEZs, or they were IT parks in which case MAT is something which is applicable and in all the other cases full tax which is again at 29% so that is what is applicable.

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

Manish Agarwal: My question is pertaining to the liability side, so we have had the interest cost benefit flowing to us which provides a buffer to the NDCF in our way, so going forward how do you see this trend playing out and about the interest cost what are the broad conversations you are having with the lenders right now?

Preeti Chheda: So, Manish in terms of the debt conversations, of course we have seen a good 250 bps reduction in our interest cost and that one reason why we have been converting some of our variable cost into fixed cost and now as we talk we have almost 50% on fixed cost. Some of our debt is already locked in at these rates for the next two to three years depending on when we have raised the NCDs so that is one thing, and we are already working on converting a little more of a variable cost into fixed cost and of course we will take a call some of that can continue to remain at the SPV as variable cost because these are long term debts. So, that is one thing and of course this year as you are also aware we received a huge benefit vis-a-vis our projections in terms of our interest cost versus our projected numbers in the equities we will continue to receive that benefit next year because that is what the cost which we assumed driven for the next year. So, that should continue, but overall, in terms of the NDCF as we said because now in terms of the leasing and the rentals which are going to come from the leasing that we feel now, we should definitely see an improvement in our NOI as compared to FY22 which should also add to our NDFC.

Manish Agarwal: Secondly on Commerzone Porur, we are seeing traction occupancy has moved up committed occupancy, what sort of levels can we head towards what is the leasing pipeline over there looking like?

Vinod Rohira: Yes, we are constantly looking at picking up on leasing that building out and we are seeing the traction begin slowly as we had for Chennai. We are quite confident we will be able to lease these asset also.

Moderator: Thank you. Ladies and gentlemen that was the last question. 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.