"Mindspace Business Parks REIT's Earnings Conference Call"

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(This document has been edited for clarity and accuracy 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 and year ended March 31, 2023.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 conference over to Mr. Kedar Kulkarni. Thank you, and over to you Mr. Kulkarni.

Kedar Kulkarni: Thank you. Good afternoon, everyone, and thank you for joining this 4th Quarter and Financial Year 2023 Earnings Call of Mindspace Business Parks REIT.

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

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

I now hand over the call to Vinod. Over to you, Vinod.

Vinod Rohira: Thank you Kedar. I would like to extend a warm welcome to all participants who have joined us on the call today.

FY23 has been the year of returning to normalcy. After innumerable debates on the future workplace strategy and several months/years of working-from-home, a consensus has emerged within the region that office is going to be the mainstay of future work environments with productivity being much higher at the office.

Additionally, FY21 and FY22 witnessed a huge spike in headcounts across the spectrum of tech services, which yet did not translate into increased office footprint. During this period, we expeditiously executed the business strategy of re-energizing our Parks and keeping them ready for the renewed preference for experiential workspaces with the highest standards of health, energy efficiency, wellness, ease of navigation and safety. We were able to carry out this complex task seamlessly during the downtime with minimum discomfort to our tenants.

Over this period, we have also seen an increase in physical occupancies at our parks. Our Parks have seen the physical occupancies, which fell below 10% during the pandemic, now rise to c.56% with occupiers now firmly working on returning to their offices.

Further, organizations today desire to provide best in-class work environments to their employees that they would look forward to visit every day and there is a prominent shift in demand towards quality grade-A assets managed by institutional asset managers. We achieved gross leasing of over 4 million square feet during the financial year 2022-23. We started the year with a committed occupancy of c.84.3%, which has risen by c.470bps during the financial year to c.89%. The Committed Occupancy at our Parks in Pune, BKC and Malad is near 100%. Our Parks in Madhapur and Porur have also seen the committed occupancy rise close to 95%. Healthy demand for our upgraded offerings at these locations has encouraged us to bring forward the timelines of future development in Pune and also undertake redevelopment of existing buildings at our Mindspace Madhapur Park to create long-term value to our stakeholders.

Delay in the implementation of SEZ Policy reforms has kept the demand for SEZ spaces muted. Representations from Industry Associations have been made to the Government to effect the policy overhaul at the earliest. These reforms would not only bring back the demand for these office spaces, additionally helping generate tax revenues and employment by increased occupancy.

As per IPC reports, CY 2022 was the second-best year ever in terms of All-India office leasing. While several markets across the globe are yet to come close to pre-Covid levels, the Indian office market has bounced back from the Covid-induced lull. The vast availability of STEM talent in India, strong IT industry, offshoring capabilities, growth of BFSI industry and overall growth of the country has made India among the most promising markets for cutting-edge technology support services at a very attractive cost base. GCCs & GICs looking for a reduction in costs and higher productivity along with young talent will continue to push forward the hiring process in the near future. This will result in a need for expansion and consolidation. With the global recessionary environment forecasted, we expect the demand for office spaces to reactivate once the global economic conditions become more stable.

We continue to explore other growth opportunities within the Portfolio and gear up to capitalise on third party acquisition opportunities. On the Sponsor side, they are undertaking new developments in several key micro-markets of the cities we are present in, which would add to the REIT Growth pipeline.

We continue to move steadfast in our ESG journey with increased focus on delivering on short term and long-term targets. Our focus on sustainable operations has resulted in 97.3% of our portfolio being certified with a minimum Gold LEED/ IGBC Certification. During the year we have come out with our Green Financing Framework and Green Leasing Framework which would serve as guide to our financing and leasing plans. We raised our first Green Bond in line with the principle set out in the Green Financing Framework. With this issuance our collective green financing availed has increased to c.19% of our debt outstanding. We are also engaging tenants with our ESG goals is critical to embedding our sustainability practices deeper within our operations.

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

- We have leased c. 0.6 million square feet of which c.0.5 million square feet was on account of new and vacant area leasing and c.0.1 million square feet was re-leasing at re-leasing spread of 23.8%
- The committed occupancy of the portfolio rose to c.89%
- Same store occupancy stood at 89.1%
- The average rent achieved on the c. 0.6 million square feet leasing was INR 74 per square feet per month
- We have handed the first phase of our Data Centre in Airoli W to Princeton Digital Group
- Our Revenue from operations grew by c.13.9% YoY to c. INR 5.4 billion
- Our Net Operating Income for the quarter grew by c.9.2% YoY to INR 4,364 million
- Our distributions for the quarter stood at INR 2.85 billion or INR 4.81 per unit
- We raised INR 5.5 bn through India's First REIT level Green Bond issuance
- The weighted average cost of debt stands at c.7.6%
- Our portfolio is now further diversified with over 200+ tenants, compared to 175+ tenants at the end of FY22
- We are proud to announce that Mindspace REIT is 'Great Place To Work' certified for the second consecutive year
- We received WELL Health & Safety Certifications for 41 buildings across our portfolio
- We won 4 awards
  - Business / IT Parks of the year for Gera Commerzone Kharadi by ET Realty
  - Gera Commerzone Kharadi also won the award for Most Sustainable Architecture Design by Franchisee India
  - Office buildings of the year for Building 9, Airoli West by ET Realty

- And Mindspace REIT won the Commercial Developer of the Year for West Region by Franchisee India

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

Preeti Chheda: Thank you Vinod. I would now take you through the financial updates for the quarter and year ending 31 March 2023.

Our Revenue from Operations for FY23 grew by 16.6% YoY to approximately INR 20.7 billion. Adjusting for one-time compensation received from a tenant in Q3 FY23, the Net Operating Income (NOI) stood at INR 16.9 billion recording a growth of 13.2% YoY.

Coming to our quarterly performance, Revenue from operations for Q4 FY23 grew by c.13.9% YoY to INR 5.4 billion. We recorded NOI of INR 4.4 billion for Q4 registering a growth of 9.2% YoY. Our NOI margin continues to be above 80%.

We announced a distribution of approximately INR 2.9 billion i.e., INR 4.81 per unit for the quarter recording a growth of 4.3% YoY. The distribution comprises approximately 91% i.e., INR 4.37 per unit of dividend, which is not subject to tax in the hands of unitholders, approximately 8.9% i.e., INR 0.43 per unit of interest and approximately 0.2% i.e. INR 0.01 per unit as other income. This translates to an annualized distribution yield of 6.9% on the issue price. Cumulatively for the financial year 2023 we distributed INR 11.3 billion i.e. INR 19.1 per unit. Since our listing in August 2020, we have distributed a cumulative amount of INR 27.9 bn or INR 47.13 per unit.

To further our commitment to sustainable business practices, we recently concluded the issuance of India’s first REIT level Green Bond. We released our inaugural green financing framework under which Mindspace REIT and / or its Asset SPVs may undertake issuances of green debt securities in the form of bonds or debentures. The Framework is aligned with the Green Bond Principles developed by the International Capital Markets Association (ICMA). Using this Framework as a guiding principle, we raised INR 5.5 billion with a 3 year maturity at a fixed coupon of around 8%.

Also, during the financial year we raised an aggregate INR 15.4 billion through bonds across 3 and 5 year tenures. Our aim is to have an optimum mix of fixed and variable cost loans spanning across varied maturities and maintain a healthy balance between fund raising from banks and capital markets. We also expanded our investor base by attracting more insurance and pensions funds to invest in Mindspace REIT debt securities.

We experienced high interest rate situation in the whole of FY23, which offset the gains we made from the growth in NOI. We are hoping the interest rates to stabilize in FY24.

Our net debt as on 31st March 23 was approximately INR 50.2 bn. In addition, we have undrawn committed lines of approximately INR 13.7 billion from financial institutions. Our LTV continues to remain the lowest amongst our peers at 17.9%. Our robust balance sheet provides us the flexibility to pursue both organic and inorganic growth opportunities.

With the resignation of the existing valuer due to his other professional pursuits, and the term of the existing valuer nearing the 4 year timeline prescribed by the REIT Regulations, we appointed Kzen Valtech Pvt Ltd as the new valuer of Mindspace REIT. We also appointed JLL as the independent consultant to review the methodology and assumptions used by the Valuer in valuation of Mindspace REIT Portfolio.

Gross Asset Value of our portfolio, as valued by the independent Valuer, as on 31st March 2023 stood at INR 280.2 billion recording a growth of 2.7% over 30th September 2022. 92.7% of our value comes from completed assets. Our NAV per unit has increased by INR 1.6 per unit from INR 370.3 per unit as of 30th September 2022 to INR 371.9 per unit as on 31st March 2023.

As these instruments are gaining popularity amongst retail investors, our retail unitholder base grew by over 25,000 unitholders during FY23. We are encouraged by this participation and shall work with industry associations and regulators to increase the awareness of this product amongst various categories of domestic investors.

We also welcome NSE's initiative of starting a REIT and InvIT index. We hope this helps inflows into REIT / InvITs from active as well as passive funds and thereby improve the liquidity of the instruments. We also hope other exchanges support these instruments in similar manner and consider inclusion of these instruments in main stream indices.

With this backdrop I hand the call over to the operator to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: My first question is with respect to the GAV and NAV numbers. So, GAV growth has been impressive about 6.2 but NAV is only about 2% up on a full year basis. It's largely attributable to debt, how should we read this NAV growth number?

Preeti Chheda: The GAV has grown by approximately 2.7% over September. And the NAV growth is 1.6 per unit. So, essentially it's been approximately Rs. 2 growth, so I am not too sure, what exactly you mean?

Puneet Gulati: So, NAV growth has been slower than the GAV growth, right, I mean should that be the case because GAV would ideally grow inline with how market rentals or your contractual escalations would move while NAV would largely be a function of where the net debt is.

Preeti Chheda: So, generally what happens is, as you keep adding assets in terms of completions, your NAV also grows up, but your GAV also grows up only by a similar amount. So, the impact on NAV is higher than the impact on the GAV. So, as an example, if you had your completed portfolio which would have grown by X amount, to that we add the CAPEX which you are incurring because that's also adding value to your GAV. But the similar amount, because it's debt funded, gets added to your NAV. Therefore, you see the GAV increase higher than the NAV.

Puneet Gulati: My second question is the average market rentals that you report seems to have fallen on a quarter-on-quarter basis, how should we read that and what are the market rental trends that you are experiencing?

Vinod Rohira: Market rents haven't fallen quarter-on-quarter, in fact market rents remain stable for each of the markets that we are in. We are seeing demands not getting disrupted because of rents.

Puneet Gulati: And are you seeing an improvement in the rental environment or not yet?

Vinod Rohira: Certain macro-markets, depending on at what asset cycle you are, you are seeing actually firming of rents.

Moderator: Thank you. The next question is from the line of Kunal from BoFA. Please go ahead.

Kunal: Two questions, one can you talk about the revisions to the expiry schedule for fiscal 24, I mean what part of your customer base is coming from and what could have been the reasons here?

And keeping in mind that you also commented that there is the outlook of recession that needs to be incorporated into the leasing plan, how would you think of the occupancy levels from here during the course of the coming year?

Vinod Rohira: So, essentially, churning is part and parcel of most of these companies that you are seeing. The larger the portfolio across of India, you will have most of those large occupiers recalibrating from time to time. And this happens every 2, 3, 4 years, not just in a COVID or a pre-COVID environment. We are seeing this over the last 10 to 15 years. So, this is all part and parcel of their strategy to churn. And most of the spaces that have come are a mixture of that. While we see them as a great mark-to-market opportunity because these spaces were actually at older rentals. And we didn't have adequate supply in those markets. Leaving aside whatever might happen to the SEZ footprint, which we will figure out the denotification and take that forward, but otherwise these become opportunities to release at mark-to-market.

Kunal: Is there a category that these tenants might belong to, like either IT services or BFSI is there categorization like that or for that matter, are you seeing that the SEZ space is might be seeing higher exits versus non-SEZ?

Vinod Rohira: No, it's a mix of everything; it's not that people are walking away from the SEZ because they don't like SEZ or whatever. It's more about what committed contracts they had taken or what footprint or jobs they were doing, for which if the demand probably has shifted then those headcounts will move towards other headcounts that are needed for the other growth aspects, which is the churn that is taking place right now. It's not specific to SEZ or non-SEZ.

Kunal: And if you could give us any color around how to think about either the occupancy trends from here or the 1.6 million expirees that; you know what could we expect in terms of the renewal percentage? Could it be a similar 75% what you have seen in fiscal 23 or --?

Vinod Rohira: I think we have got used to this now, so you will see exits as part of the portfolio coming in and going out. As long as you get your assets in the right quadrant, you are building them right, you are keeping them right and you are attracting top talent to come there and you have assets where the infrastructure in the larger play is in place, you are seeing an actual shift of demand. We have seen that, I mean literary we are a million square feet of unaccounted for, not calculated for, exits that took place for us in the last financial year. Within the same quarters, we were able to re-lease back, because our assets were far more attractive to the new occupier who just moved in within the same quarter. So, you didn't even probably see the blip, but to us it was a very exciting time, when we had sudden churn take place, and we had clients take the space back. And it actually worked out well, because they like the assets, they liked the location, they preferred it other options that they had and we were able to re-lease. So, we see that more in that light than anything else honestly.

Moderator: Thank you. The next question is from the line of Arun from Unify Capital. Please go ahead.

Arun: What kind of NOI growth are we envisaging for FY24?

Preeti Chheda: So, I can't lay a specific number, but all I can tell is that with the leasing which has happened in FY23, the rent from that leasing will come in FY24, so you should directionally see a growth in NOI, but I won't be able to quantify the percentage increase. And we had some more area which has got completed so rents from that also will keep adding to your NOI.

Arun: And regarding, you all would have heard about Cognizant's commentary yesterday, that they would be vacating around 11 millions square feet of office space. So, how do we, what impact would this have for Mindspace?

Vinod Rohira: We have not heard or seen any impact so far and I don't think we will see that impact in the short-term coming future. I mean these are all headline news that keep happening. We have gone through many headlines in the last 36 months. But it's part and parcel of business for us.

Arun: And just wanted to check on the footfalls, it is now a 47%, right, footfall across parks?

Vinod Rohira: 56%.

Moderator: Thank you. The next question is from the line of Vivek Agarwal, an Individual Investor. Please go ahead.

Vivek Agarwal: My questions are as follows, why is that such a big difference between actual occupancy and committed occupancy which has been there for quite sometimes now, that was the first question? And why has there been a fall in like-to-like occupancy. If we remove the area that has been pre-leased which has got added to the portfolio area then the like-to-like occupancy if I am not wrong, has fallen; so just wanted to ask regarding these two things.

Vinod Rohira: Okay, so first part of the question, really is because we continue to keep adding new supply into the portfolio and that portfolio when the under-construction supply gets completed you sign the LOIs and then it translates to lease and then the rent starts over a period of time. That's why you are seeing the difference between actual and committed occupancies. And that lag will continue because you are going on infusing new supply or re-leasing so that lag will continue to remain. These are all committed spaces but till they don't get converted into a lease, those are the things that you will keep seeing.

And the other thing that also happens is like I mentioned earlier if a tenant vacated it shows vacancy and if we get the next tenant in the same quarter till the time Lease Deed is signed, the tenant forms part of committed occupancy and not occupancy.

Vivek Agarwal: And the fall in the like-to-like occupancy? If I remove the preleased area, then if I am not wrong the occupancy have come down to somewhere around 82% or give or take 0.5% so --?

Vinod Rohira: It was exactly the same logic our portfolio occupancy was 83.7 it has moved to 83.4, it's because Amazon left and then we signed HighRadius immediately. And till that gap remained you are seeing that difference.

Vivek Agarwal: Two more questions, the tax advantage that we had distribution, do we have --; how long that is going to last, because then the taxable component will increase at some point in time?

Preeti Chheda: I am not sure of what tax advantage we are talking about but --

Vivek Agarwal: The distribution being tax free, significantly 90%.

Preeti Chheda: Yes, so today our compensation of distribution is essentially dividends which of course is tax exempt at the hands of the unit holders and a small portion is interest. Now going forward as I had said in the past, it all depends on the capital structure, how that shapes up and also when we start acquiring new assets how much does this new asset you know bring in, in terms of debt.

So, to the extent our capital structure changes, the compensation of the distribution could undergo a change.

Vivek Agarwal: Do we have any sense like how it will be headed in the next couple of years, 3 years, 5 years -- ?

Preeti Chheda: I won't be able to comment on such a long term, because at least in the immediate future, we expect this to continue as it is. And thereafter depending on how the capital structure emerges, the compensation could change.

Vivek Agarwal: And the last question why was there a fall in the area of under-construction in Airoli?

Vinod Rohira: So, while we continue to have the potential to build up to 2 million odd square feet in that park, the financial modeling was done for around 800,000 odd, so we have just kept it to that for the sake of simplicity. The potential continues to be there, as and when we see the opportunity we will build.

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

Satinder Singh Bedi: Out of this 25.8 million completed area, what is the breakup of the SEZ and non-SEZ? And what is the occupancy that we have for these respective buckets?

Vinod Rohira: So, it's in the range of 55% and 45%, thereabouts. From an occupancy point of view, we are 95% leased on the non-SEZ space. And 84% odd in the SEZ space.

Satinder Singh Bedi: So, 55% for SEZ you are saying?

Vinod Rohira: 55% for SEZ, 45% for Non SEZ.

Satinder Singh Bedi: And I am assuming that the incremental development is mostly non-SEZ?

Vinod Rohira: Yes, they are all non-SEZ.

Satinder Singh Bedi: Any opportunity that you see to denotify a complete building, do we have any such in the portfolio that helps us increase the non-SEZ without waiting for the changes in the DESH Bill.

Vinod Rohira: Yes absolutely, so fortunately for us, between 4 million square feet and 5 million square feet our small buildings, each of 300,000 to 350,000 odd square feet in our portfolio. So, we are going on denotifying building by building wherever we see the opportunity to offer it bring it into the spectrum of non-SEZ supply. So, we are continuing to do that while we wait for DESH and other amendments to come through to the SEZ Act.

Satinder Singh Bedi: And what is the percentage of kind of tenants in terms of area that come into GCC category and what is the IT services? And within IT services, what percentage is typically Indian IT?

Vinod Rohira: So, essentially ~50% will be GCC, GIC and equivalent. The Indian companies on our footprint who are servicing global clients, will be in the range of about 10% odd.

Satinder Singh Bedi: And on this tenant improvement and pre-rent, so do we give out a tenant improvement allowance and is it an investment or is it paid for by the client, so just wanted to understand --?

Vinod Rohira: No, we have not yet, offered any tenant improvements to any client. If we do, we do long amortization of fit-outs for clients that we believe have stable revenues and stable rents credit and we amortize that in addition to the rent with lock-ins etc.

Satinder Singh Bedi: You said the average cost of borrowing at year end is at 7.6% so assuming, and obviously some of these come up for renewal and some of it is end based model. Assuming nothing changes from now, so the repo remains at the present level of 660. How does our interest rate move ceteris paribus through the year. So, what is the incremental impact of interest?

Preeti Chheda: Yes, if we do not see any further increase in the repo rates and it remains where it is, then from the levels which we are seeing in March 23, we expect another 20 odd bps increase in the year to come, because some transmission of interest rate has still not happened, which we expect to happen now, because there were resets which are spread out longer. So, I would say a 20 bps is something which we would see from now.

Satinder Singh Bedi: This also includes the NCD because I assume that will lead a quantum jump because we have got Rs. 200 crores of NCDs also coming up for renewal this year.

Preeti Chheda: Yes, but Rs. 200 crores is very small in the overall debt profile so it's just about Rs. 200 on a Rs. 5000 so that Rs. 200 is not going to move the needle. Essentially this increase will come from the variable cost debt

Satinder Singh Bedi: And what percentage of Rs. 5400 crores is towards CAPEX deployed towards CAPEX and hence capitalized?

Preeti Chheda: So, essentially most of the debt which has been raised, of course this is a historical debt which comes in and then you have been adding CAPEX dent to this. So, for example in FY23 we have about Rs. 700 to Rs. 800 crores of debt which we have added because of CAPEX. So, I would say that essentially the incremental debt which will keep coming every year will be largely attributable to the CAPEX spend.

Satinder Singh Bedi: But what portion of this 5,400 is CAPEX linked?

Preeti Chheda: Essentially, see there is nothing like CAPEX because all the debt which we have taken is in form of LRD or NCDs at the REIT level. So, we have not taken any construction finance if that is what you are asking. All of this is LRD debt or NCD.

Satinder Singh Bedi: My point was more from point of view of understanding the impact of this loans on the bottom line on the distribution in terms of the interest outflow, and part of it goes towards debt capitalized no? So, I just wanted to understand what is the interest cost that will impact the distributions this year?

Preeti Chheda: So, the interest cost, whatever we are going to incur going forward, I mean, in this current year will obviously on account of CAPEX so that will get capitalized, and approximately, I would say, close to around 50 odd crore interest is something which we expect to get capitalized.

Moderator: Thank you. The next question is from the line of Shashank Chawla from Summerset. Please go ahead.

Shashank Chawla: Thanks for the opportunity. So, my first question is on the vacant space. So, can you give an idea of how much of that is SEZ and non-SEZ? And then in terms of your plan to convert some of these space into non-SEZ, where are we in that process?

Vinod Rohira: So, we are about close to 6,00,000 of vacancy in the non-SEZ and about 2.3 odd million in the SEZ. Out of that, one building of 400,000 odd square feet is on the verge of denotification, which we will get through in the coming quarter which will get released for non-SEZ leasing, and then the rest we will keep following up in the pipeline.

Shashank Chawla: So, there is no progress on the DESH bill or when it might be implemented?

Vinod Rohira: We don't have visibility on when it will come. When it comes is really anyone's guess, but we have to kind of wait for that, but our plan B of de-notifying is already in place.

Shashank Chawla: And if I remember correctly, like this was a couple of quarters back then you had mentioned by end of FY '23, you might see the occupancy above 90% or something. So, we are shy of that. So, what's your expectation of how occupancy is trending in the future? Or would it necessarily have to sort of wait for the DESH Bill before we can actually see occupancy move up meaningfully?

Vinod Rohira: We don't necessarily have to wait for DESH. We certainly have to get the denotification process sorted out so that we can see movement towards getting that vacancy occupied. So, it will be a process that we will follow, and while the churn will give us opportunity to release and higher mark-to-market opportunities.

Shashank Chawla: And just on the Chennai region, sorry, I think I remember in the previous call you mentioned that from committed to actual occupancy it takes like two to four months on average, but in Chennai we see like committed occupancy was at 60% in second quarter, 90% in third, and 90% in fourth whereas the actual occupancy hasn't moved up from 33%. So, is there a reason why?

Vinod Rohira: Yes. So, the client's fit outs are actually going on as we speak, and they should be operational within this coming quarter followed by the next quarter, because they are taking space in tranches. Now it's 94% let.

Shashank Chawla: And the other thing just there was some exceptional item of 1.4 billion for this year. I just wanted to check what that amount is? And I am guessing this is a non-cash, so it doesn't have any impact on any of your cash flows, but if you can throw some light on that?

Preeti Chheda: Yes. So, that's actually the write-off of the building which is gone under redevelopment. So, under the Indian Accounting Standards, you need to write-off the amount because the building is getting demolished. So, it's just the write-off, and it's a non-cash item.

Shashank Chawla: And how was this value in the gross asset value or NAV like was it valued at the high amount and that’s been written off now?

Preeti Chheda: Yes. So, yes, obviously, that's the reason we are doing the redevelopment. So, what happens is the cashflow of the revised and the redeveloped asset is what is considered in the GAV.

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

Kunal Lakhan: Good evening, Vinod and Preeti. Vinod, I know you addressed this question earlier, but just again like trying to pick your brain on this that now the whole cognizant commentary, right, in terms of 11 million square feet is a stark number even on an all India portfolio, right, of 600, 650 million square feet. It's like 2% and that's just one occupier, right?

And now what I am trying to understand is like, you known, have we been having these discussions or have we been getting these indications from these IT services guys on these lines of they adopting this tier two city strategy or like hybrid being a very large part of their model essentially going forward? And could this be a trend going ahead which may get adopted by other IT players? Just wanted to understand your thoughts on this.

Vinod Rohira: No, these are motherhood statements. I don't know if you remember sometime ago, TCS has said 90% will be work from home. Then they said 90% will be work from office. So, these are all, I mean, these are news articles which are giving you information about companies who are looking at surrendering back space or they are looking at reducing headcount, but these are a process of 12 to 18 months. Some of it is already implemented and done with in the last one year, and this is a constant churn with multiple companies.

You may have seen Amazon in the last one year gave up between 2 million and 3 million square feet, 4 million square feet. Accenture gave up 3-4 million square feet. All of these are part and parcel of their business strategies, and when the business bounces back, they come back and take spaces in half a million and million square feet really quickly.

So, we have seen that happen on and off across the last couple of decades of being in this trade. So, we don't really get put off by all of this. We see what our asset is like, what is the mark-to-market opportunity, where can we place that asset if at all anything like that happens within our portfolio?

Right now we don't have any such indication, but we are always ready, because our portfolio is right up there, and there are customers who are looking for space to take up, and we are happy to release. So, it's part and parcel of business.

Kunal Lakhan: Fair enough. Just on those lines only, like, what is the profile of the customers who are actually kind of looking to take up more space? And just a related question on that is if you can also like give some color on your discussions with say GCC and say non-GCCs are largely IT services company. How are they thinking about on the office expansion plan?

Vinod Rohira: So, you know, the third-party service providers are taking a lot of space right now because in some way, there is a CAPEX freeze with the larger the GCC, GICs for incremental investments for the short term. At the same time, they want headcount. So, we have seen a lot of the third-party service providers, especially in the tech, in the financial services sector getting additional demand for seats to service, and those players have taken a lot of space in the last couple of quarters, and we continue to see that trend going forward.

Then there are some large tech companies who are doing cutting edge tech for 5G and related equipments where they have labs and technology within India for their global practices. We have seen them grow significantly and continue to ask for more space.

So, there are green shoots of demand coming out of all of these spaces, and they are looking for space, and they are growing. Obviously, the large RFPs are not there. Those large RFPs will probably not be there for the next two, three, four quarters, but you will continue to see demand for 50,000, 100,000, 150,000 square feet on a constant basis, and that is really exciting because that's where the churn gets used when it is million, 2 million square feet, generally conversations are on build to suit. They don't generally fall into the bucket of speculative commercial leasing space. So, the smaller demand is really attractive because we have space to offer.

Kunal Lakhan: And just lastly one data point. You know, what would be the percentage of area occupied by IT services companies excluding the GCCs?

Vinod Rohira: You are saying third-party services?

Kunal Lakhan: Yes.

Vinod Rohira: So, I mean, there are different segments you can call as third-party. Essentially, what we would kind of put it on a pie chart, you will see technology and processes almost at 46%. Financial services would be about 18%, 19%. You will have telecom and media at about 8%, 9%. You have engineering and manufacturing related tech at 7.5%. You have healthcare and pharma at 5.5%. E-commerce at about 2%. Professional services at about 6%. So, all of these combinations are working through.

Now in this, if you factor for third party, I mean, let's look at, for example, third-party services being done by L&T, TCS, Wipro, Infosys. They would probably the non-GCC areas in that sense for third party including some of the global players would be about 50 odd percent, and GCCs would be 50 odd percent.

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

Sameer Baisiwala: First question is on the ROFO asset. Looks like the Raidurg project is kind of shelved, its fully completed, fully leased. So, why has the sponsor decided not to go ahead with it?

Vinod Rohira: No, we have just deferred that. We were just waiting for stable full occupancy of Qualcomm to take place and for them to exercise their option for the space etcetera. So, I think this will be very much on the offing in the coming quarters. We are very keen to take this in the REIT. It's an absolute Triple A grade asset.

Preeti Chheda: And Sameer, we will just wait. You know, as we had said that we will also wait for the markets to improve a little before we get that asset. But for sure we are very keen to take this asset into the REIT.

Vinod Rohira: Yes, absolutely. There is no change.

Preeti Chheda: There is no question of it being shelved.

Sameer Baisiwala: I am a little confused just because until last Q3, it was under very active evaluation, and now that it's fully leased and completed, now we are kind of taking some time off.

Preeti Chheda: Yes. Sameer, it's more to do with, the market improving a little for us to get that asset into the portfolio.

Vinod Rohira: So, very keen to take it.

Preeti Chheda: Yes. We are very keen to take it in.

Vinod Rohira: In fact, there are some more assets in the ROFO which have now got completed and let. So, we will start looking at those as well to be introduced at a relevant time.

Sameer Baisiwala: The second question is on the NDCF for fiscal '24. So, Preeti, if you can just help us on two things, (a) the pluses and minuses. I understand NOI would grow and some marginal uptick in interest. So, how does this play out into NDCF or are there any more pluses and minuses we need to keep in mind?

And second is in fiscal '23, you have got the benefit of 120 crores from Pocharam proceeds. So, how do you plan to make up for that in fiscal '24?

Preeti Chheda: So, Sameer, if we don't have too many surprises in the years to come, then, obviously, we are hoping the NOI to see a healthy growth, but some of that NOI obviously will be eaten up by the increase in the interest cost, both on account of the additional CAPEX and CAPEX, of course, does not affect our NDCF, but because there has been an increase in interest cost over the last year, so to that extent interest cost will go up, and then, second is also because of the interest rate.

And secondly, we are hoping that in the year to come, we will not be having any form of income support. We should be able to manage the operating cash flow. So, to that extent, to answer the second part of your question, we may not really need to have another Pocharam kind of proceeds. So, that's broadly how I look at NDCF for the next year.

Sameer Baisiwala: No, this is excellent, Preeti, if we are going to kind of unwind the income support.

Preeti Chheda: Yes.

Sameer Baisiwala: And this final question. Vinod, how do you see 89% committed occupancy over say next 12 months?

Vinod Rohira: So, the way I see it will actually in the non-SEZ, we have hardly any space left. So, I was wishing we would have got more supply really quickly, which we are preponing construction. So, I am hoping whatever churn comes, if it comes, we are able to release it back quickly. Some churn may come, and we are actually waiting for that because we have no real supply in the non-SEZ.

At the same time, our focus is really to push the SEZ denotification for wherever we have independent buildings which we can de-notify so that we can bring in back vacancy into use and get that to occupancy. That's the only thing that's kind of dragging us right now. Otherwise, we have seen demand in those micro markets.

Sameer Baisiwala: I guess out of 1.6 million square feet SEZ, 0.4 goes out, so gets de-notified, so 1.2 on a total base of 25 million, so roughly about kind of mid-90s is where you can potentially move to.

Vinod Rohira: We would hope to reach that. In Pune we are 100% already let fully, and that's where we are trying to bring the under construction building much more earlier in. In Hyderabad, Madhapur, we are almost 95.5% let. I am hoping that some churn there because the rents for the old occupies are really low, and this has become a really become asset in Hyderabad for us. So, whatever churn comes, we will be able to mark-to-market it really well.

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

Satinder Singh Bedi: Vinod, how do we measure the physical occupancy? Because this term is slightly nebula. So, when you say 56%, how do you define this?

Vinod Rohira: So, there are different measures because there is no straight-line metrics. We can't cumulatively headcount per week of the people that came into work. In certain offices, it is three days a week. In some offices, it's every alternate day, but cumulatively, let's take, for example, we have 11 million square feet in a park. So, on a thumb rule basis of 1 in 100, we should have 1.1 lakh people. If there is 56,000 people coming in and out every week, cumulatively, not cumulative, on a daily basis, then that's our occupancy.

Satinder Singh Bedi: I think that seems reasonably scientific. And second, Sameer asked a question earlier. I don't know if Sameer's question was for the same asset. So, there was this mention of the Square Avenue 98 BKC Annex being mentioned that one of the assets being considered for acquisition. This time it has not been included. So, any rethink on this asset?

Vinod Rohira: So, we were bundling it together which is why we waited on it. That asset will also get into the portfolio.

Satinder Singh Bedi: And Preeti, just for housekeeping, what is the value of unit capital that is let? I understand most of the payouts at this stage are in the form of dividend and the balance is interest. So, no capital is getting paid out, but what is the total value of unit capital in the REIT?

Preeti Chheda: So, the total value of unit capital at the time of to REIT ~16,300 crore, that's what came in. So, that was the unit capital, but obviously, you would see adjustments to that. I think that may not be too relevant in terms of measuring, especially if you are looking at the distribution.

Satinder Singh Bedi: So, how should one look at the future capital structure which now that okay, there is clarity on this part that the repatriation of capital is tax-free till it winds downs to zero. So, how does one look at the future capital structure planning when you look at future acquisition because this becomes a tool for an efficient return of capital?

Preeti Chheda: Yes. So, yes, you are right. The much-awaited clarity on this actually emerged and we are thankful to the government for clarifying it. So, as of today, we are not doing any of that, but as

I said earlier in the call that in future it depends upon the capital structure. If there is a need arising which we need to do a similar structure, we would do, and now, of course, it's pretty efficient from a tax perspective also with this amendment.

So, it is all depend on how our capital structure emerges in the years to come, our acquisitions, when the acquisitions happen, with what debt profile do those acquisitions come in, and what kind of efficiencies which we can bring into the capital structure. So, I think it is via a combination of various things, but as I said in the immediate future, we see that the maximum payout will continue to be by way of dividend itself because we are entities which are generating a good amount of distribution through dividends.

Satinder Singh Bedi: One final on the NDCF. So, Preeti, we have 235 crores of CAPEX during this quarter, and we had 20 crores of a positive working capital flow also. But we have drawn down 261 crores of net financing. So, I hope some of this draw down is not going towards supporting the distributions because actually the CAPEX was 235, and we have 20 crores of support from working capital this quarter. So, absent 215, we have gone down 261. Do I understand the retention about 9 crore at the SPV level, at the REIT level because we paid out lesser than what we got from the SPVs, but still that's about 38 crores of gap?

Preeti Chheda: Yes. So, what happens is that generally working capital is a number which keeps changing quarter-on-quarter. And therefore, you will see some quarters where the working capital is high, some quarters where the working capital is low. So, to that extent, wherever we have a little bit of shortfall, that's when you will see this net debt getting up because that's the interim. I would say the interim NDCF that we are bridging. And as I said to Sameer also, that in the year to come, we are hopeful that we should not have this going forward, but we will, of course have to see there are no further surprises in the year to come. I mean, we should have very minimal or nothing of this. Of course, they will continue to be quarter-on-quarter working capital adjustments which will come because that's again something which depends on how the cash flows every quarter. But overall, in the year, we should not expect much of this.

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