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Rating Rationale

December 11, 2020 | Mumbai

Mindspace Business Parks REIT (Mindspace REIT)

'CRISIL AAA/Stable' Converted from Provisional Rating to Final Rating for Rs 200 crore NCD

Rating Action

Rs.200 Crore Non Convertible Debentures	CRISIL AAA/Stable (Converted from Provisional Rating to Final Rating)
Rs.300 Crore Non Convertible Debentures	Provisional CRISIL AAA/Stable^ (Reaffirmed)
Rs.500 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PP-MLD AAAR/Stable (Reaffirmed)
Corporate Credit Rating	CCR AAA/Stable (Reaffirmed)
Rs.250 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

[^]A prefix of 'Provisional' indicates that the rating centrally factors in the strength of specific structures, and will be supported by certain critical documentation by the issuer, without which the rating would either have been different or not assigned ab initio. This is in compliance with directive issued by the Securities and Exchange Board of India (SEBI) on May 6, 2015, on 'Standardising the term, rating symbol, and manner of disclosure with regard to conditional/provisional/in-principle ratings assigned by credit rating agencies (CRAs)'

Detailed Rationale

CRISIL has converted the provisional rating assigned to the Rs 200 crore non-convertible debentures (NCDs) of Mindspace Business Parks REIT (Mindspace REIT) to a final rating of **'CRISIL AAA/Stable'** while reaffirming its rating on the long Term principal protected market-linked debentures (MLDs), proposed NCDs of Rs 300 crore and commercial paper at **'CRISIL PP-MLD AAAR/Provisional CRISIL AAA/Stable/CRISIL A1+'**. The corporate credit rating has also reaffirmed at **'CCR AAA/Stable'**. CRISIL has received the final legal documents executed for the NCD transaction. The executed documents are in-line with the terms of the transaction, when the provisional rating was assigned on September 22, 2020. Hence, CRISIL has converted the provisional rating on the NCDs of Rs 200 crore to a final rating.

Mindspace REIT is sponsored by the K Raheja Corp group. The real estate investment trust (REIT) owns eight special purpose vehicles (asset SPVs) comprising 10 commercial offices, information technology (IT) parks and special economic zone (SEZ) assets, and houses the facility management division.

The ratings continue to reflect Mindspace REIT's comfortable net loan-to-value (LTV) ratio, characterised by low debt, strong debt protection metrics supported by a cap on incremental borrowings, and stable revenue profile of the assets, amidst benefits of high occupancy and geographic diversification. The strengths are partially offset by susceptibility to volatility in the real estate sector, causing fluctuations in rental rates and occupancy levels.

CRISIL has also considered measures taken by the central and state governments to contain the spread of COVID-19. Subdued economic activity or extended periods of work-from-home adopted by certain corporates may lead to build up of vacancy in the near term. Further, there was a temporary halt in planned construction activity during the lockdown phase. Nevertheless, work has resumed for most projects now. CRISIL will continue to monitor events around the pandemic.

Analytical Approach

CRISIL has combined the business and financial risk profiles of Mindspace REIT with those of its asset SPVs, in-line with its criteria for rating entities in homogeneous groups. This is because Mindspace REIT has direct control over the asset SPVs, and will support them in the event of any exigency. Additionally, as per SEBI's REIT Regulations, 2014, Mindspace REIT and its asset SPVs are mandated to distribute 90% of their net distributable cash flow. Also, the cap on borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the aggregate value of Mindspace REIT's assets).

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Comfortable LTV ratio, supporting the ability to refinance:** Consolidated net debt was low at Rs 3,273 crore as on September 30, 2020. Consequently, Mindspace REIT has a comfortable LTV ratio of around 14% (as per external valuation dated September 30, 2020). The low LTV ratio shields investors from the risk of any decline in property prices and its consequent impact on refinancing.

The proceeds from the NCDs of Rs 200 crore are expected to be utilised primarily for refinancing external debt at underlying asset SPVs. These instruments are non-amortising with bullet repayment at the end of 36 months from deemed date of allotment, while the coupon is payable quarterly.

The MLDs of Rs 500 crore were utilised for refinancing external debt at underlying asset SPVs. These instruments, similar to the NCDs in terms of amortisation, have a tenure of 577 days from the date of allotment. The coupon is accruing and to be paid at the time of redemption of MLDs, subject to terms of and conditions mentioned in the transaction documents.

The remaining proposed NCDs of Rs 300 crore are expected to be utilised for - a) refinancing of external debt at underlying SPVs, b) construction finance for ongoing projects and future development c) working capital, d) funding acquisitions and/or e) other general corporate purposes. These are also expected to be non-amortising with bullet repayment at the end of 3-5 years. Coupon, if any, may be payable quarterly, half-yearly or annually.

* **Strong debt protection metrics:** Residual debt at the asset SPVs are amortising and will run down over the next 10-12 years. However, incremental debt may be availed for repayments, construction, working capital requirement, acquisitions and other corporate purposes. Average consolidated interest service coverage ratio (ISCR) should be comfortable at over 2.0 times, including for all incremental financing in the underlying asset SPVs. This is because incremental debt, over and above the proposed instruments and existing debt, to be raised over the next 3-5 years is expected to be around Rs 3,000 crore. Consequently, LTV and debt-to-NOI/EBITDA (net operating income/earnings before interest, tax, depreciation and amortization) ratios should remain comfortable at below 40% and 4.5 times, respectively, vis-a-vis 49% and 5.0 times, respectively, as proposed in the MLD and NCD term sheets.

* **Stable revenue of asset SPVs:** Mindspace REIT's entire revenue comes from 10 commercial offices, IT parks and SEZs. Consolidated revenue was Rs 804 crore (including revenue from works contract) for 6 months ended September 30, 2020. The portfolio assets had committed occupancy of 88.9% as on September 30, 2020. Committed occupancy has come down from 92.0% in March 2020, mainly because new area added in June 2020, of 8.0 lakh square feet (sq. ft), is to be leased out gradually; committed occupancy for completed space was robust at over 90%. The rentals have high mark-to-market potential, given the superior asset and service quality, favourable location in prime areas of Hyderabad, Mumbai region, Pune and Chennai, good demand and competitive rental rates.

Weakness:

* **Susceptibility to volatility in the real estate sector:** Rental collection remains susceptible to economic downturns, which may constrain the tenant's business risk profile, and therefore, limit occupancy and rental rates. Top 10 tenants and technology sector concentration at 40.7% and 45.5% of gross contracted rentals, respectively, as on September 30, 2020, exposes the REIT to moderate concentration risk. Further, 27.5% of the gross contracted rentals will be due for renewal between fiscals 2021 and 2023. While majority of the tenants are established corporates and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time. This could adversely impact cash flow, and hence, will be a key rating sensitivity factor.

Liquidity Superior

Liquidity remains strong, supported by healthy average consolidated ISCR of over 2.0 times, including for permitted additional financing. Further, a low LTV ratio enhances the REIT's financial flexibility. Consolidated debt is unlikely to cause LTV ratio to exceed 40%, thus protecting investors from any decline in property prices and the consequent impact on refinancing.

Outlook: Stable

CRISIL believes Mindspace REIT will continue to benefit from the quality of its underlying assets over the medium term.

Rating Sensitivity factors**Downward factors:**

- * Reduction in the value of underlying assets, leading to LTV ratio of over 40%
- * Higher-than-expected incremental borrowing
- * Increase in overall vacancy by over 5% for completed assets of 239 lakh sq. ft, of which 212 lakh sq. ft has been leased (occupied and committed) as on September 30, 2020
- * Significant delay in the completion and leasing of under construction assets

The 'provisional' rating, on the proposed NCDs of Rs 300 crore, will be converted into a 'final' rating on:

- * Receipt of executed debenture trust deed
- * Prepayment/refinancing of debt at SPV level

Additional documents, if any, executed for the transaction will also have to be provided. A rating rationale/report indicating

conversion of the 'provisional' rating into a 'final' rating will be published on the CRISIL website on receipt of these documents.

About the Trust

Mindspace REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's REIT Regulations, 2014, as amended. Mindspace REIT's portfolio assets are held through the following asset SPVs:

K Raheja IT Park (Hyderabad) Ltd (KRIT), Sundew Properties Ltd (Sundew) and Intime Properties Ltd (Intime) own and operate a SEZ/IT park, Mindspace, in Madhapur, Hyderabad. The property has been operational since 2005, and has a total completed area of approximately (approx.) 100 lakh sq. ft, of which 95.3% was occupied as on September 30, 2020, while an additional area of approx. 6 lakh sq. ft is expected to be developed over the medium term.

Avacado Properties and Trading (India) Pvt. Ltd (Avacado) owns and operates:

- An IT park, Mindspace, in Malad, Mumbai region. The property has been operational since 2004, and has a total leasable area of approx. 7 lakh sq. ft, of which 93.8% was occupied as on September 30, 2020.
- A commercial office, The Square, in Bandra Kurla Complex, Mumbai region, with a total leasable area of approx. 1 lakh sq. ft. The property was acquired by the group in August 2019, and currently not leased.

Mindspace Business Parks Pvt. Ltd (MBPPL) owns and operates:

- An SEZ, Mindspace, in Airoli (East), Mumbai region. The property has been operational since 2007, and has a total completed leasable area of approx. 47 lakh sq. ft, of which 96.5% was occupied as of September 30, 2020, while an additional area of approx. 21 lakh sq. ft is expected to be gradually developed over the medium-to-long term.
- An IT park, Commerzone, in Yerwada, Pune. The property has been operational since 2010, and has a total leasable area of approx. 17 lakh sq. ft, of which 99.9% was occupied as on September 30, 2020.
- An IT park/commercial office, The Square, in Nagar Road, Pune. The property has been operational since 2015, and has a total leasable area of approx. 7 lakh sq. ft, which was fully occupied as on September 30, 2020.
- An SEZ, Mindspace, in Pocharam, Hyderabad. The property has been operational since 2012 and has a total completed leasable area of approx. 4 lakh sq. ft, of which 92.4% was occupied as on September 30, 2020.

Gigaplex Estate Pvt. Ltd (Gigaplex) owns and operates an SEZ/IT park, Mindspace, in Airoli (West) (Mumbai region). The property has been operational since 2013, and has a total completed leasable area of approx. 35 lakh sq. ft, of which 72.3% was occupied as on September 30, 2020, while an additional area of approx. 10 lakh sq. ft is under construction and expected to be completed in the next 6-12 months.

KRC Infrastructure and Projects Pvt. Ltd (KRC Infra):

- Owns and operates an SEZ/IT park, Commerzone, in Kharadi, Pune. The property was completed in fiscal 2020, and has completed leasable area of approx. 13 lakh sq. ft, of which 93.1% was occupied as on September 30, 2020. Another approx. 13 lakh sq. ft of area is under development or proposed to be developed over the medium term.
- The facility management arm, housed under this entity beginning October 1, 2020, provides services for each asset under the REIT. Services include housekeeping, management of equipment, facade cleaning, security expenses, repair and maintenance and maintenance of common areas, etc.

Horizonview Properties Pvt. Ltd (Horizonview) owns an IT park, Commerzone, in Porur, Chennai. The property was completed in June 2020, having completed leasable area of approx. 8 lakh sq. ft, to be leased gradually over the medium term.

Key Financial Indicators*

Particulars	Unit	2020	2019
Revenue from operations	Rs crore	1,757	1,422
Profit after tax (PAT)	Rs crore	514	515
PAT margin	%	29.3	36.2
Adjusted gearing	Times	3.22	3.29
Interest coverage	Times	2.67	2.83

*CRISIL-adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
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NA	Non-convertible debentures*	NA	NA	NA	300.0	NA	Provisional CRISIL AAA/Stable
INE0CCU07025	Non-convertible debentures	17-Dec-20**	6.45%	16-Dec-23	200.0	Simple	CRISIL AAA/Stable
INE0CCU07017	Long-term principal protected market linked debentures	29-Sep-20	10-year G-Sec linked	29-Apr-22	500.0	Highly complex	CRISIL PP-MLD AAAr/Stable
NA	Commercial paper	NA	NA	7-365 days	250.0	Simple	CRISIL A1+

*Not yet placed

**Deemed date of allotment

Annexure - List of entities consolidated - with Mindspace REIT

Entity consolidated	Extent of consolidation	Rationale for consolidation
KRIT	Full	89% subsidiary
Sundew	Full	89% subsidiary
Intime	Full	89% subsidiary
Avacado	Full	100% subsidiary
MBPPL	Full	100% subsidiary
Gigaplex	Full	100% subsidiary
KRC Infra	Full	100% subsidiary
Horizonview	Full	100% subsidiary

Annexure - Rating History for last 3 Years

		Current		2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
--	CCR	0.00	CCR AAA/Stable	09-10-20	CCR AAA/Stable		--		--		--	--
				22-09-20	CCR AAA/Stable							
				18-08-20	CCR AAA/Stable							
				26-06-20	Provisional CCR AAA/Stable							
Commercial Paper	ST	250.00	CRISIL A1+	09-10-20	CRISIL A1+		--		--		--	--
				22-09-20	CRISIL A1+							
Long Term Principal Protected Market Linked Debentures	LT	500.00 11-12-20	CRISIL PP-MLD AAAr/Stable	09-10-20	CRISIL PP-MLD AAAr/Stable		--		--		--	--
				22-09-20	Provisional CRISIL PP-MLD AAAr/Stable							
Non Convertible Debentures	LT	200.00 11-12-20	CRISIL AAA/Stable Provisional CRISIL AAA/Stable	09-10-20	Provisional CRISIL AAA/Stable		--		--		--	--
				22-09-20	Provisional CRISIL AAA/Stable							

All amounts are in Rs.Cr.

Links to related criteria[CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties](#)[CRISILs rating criteria for REITs and InVITs](#)[Criteria for rating entities belonging to homogenous groups](#)**For further information contact:**

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