

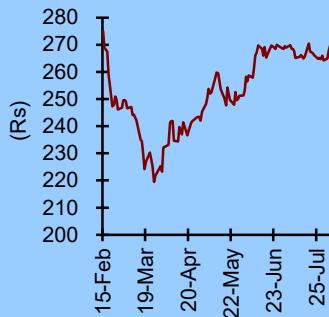
Q1FY22 result review
and reco / target price
change

Real Estate

Target price Rs293

Target price revision
Rs293 from Rs296

Price chart



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INDIA

Brookfield India REIT

ADD

Downgrade from BUY

Rs267

Resilient performance

The Brookfield India REIT (BREIT) delivered a resilient Q1FY22 performance with over 99% of rental collections and flattish NOI of Rs1.7bn on YoY basis with same-store occupancy remaining healthy at 89% (down 2% QoQ on fresh expiries). We cut our rating on BREIT to ADD from BUY with a revised March 2022 DCF based target price of Rs293/unit (earlier Rs296) as we incorporate further expiries in FY22E. At CMP of Rs267, we expect BREIT to deliver NDCF distribution yield of 7.5% in FY22E, 8.5% in FY23E and 8.9% in FY24E. We expect over 30% of the distribution to be in the form of tax-free dividend and capital return with balance returns from interest. Key risks to our thesis are the large-scale adoption of Work-from-Home by occupiers over the long term and rising interest rates globally.

- **Resilient Q1FY22 performance:** The BREIT which listed on exchanges on February 16, 2021 achieved a resilient Q1FY22 performance in its operational portfolio with rental collections of over 99% and operating lease rentals grew 7.3% YoY to Rs1.6bn while overall operating revenue (including CAM) remained flat owing to a YoY reduction of Rs1.1bn in CAM revenue owing to Covid and mid-year termination of CIOP operating services with identified assets. Comparable Q1FY22 Net Operating Income (NOI) was flat YoY at Rs1.7bn. The operating portfolio of 10.3msf is stabilized with 89% Same-Store Occupancy and a Weighted Average Lease Expiry (WALE) of 6.3 years.
- **Renewals of remaining FY22E expiries a key monitorable:** In FY21, of the 1.0msf of scheduled expiries, the REIT manager had achieved 54% renewals on term expiries while discussion on balance FY21 expiries of 0.40msf had been postponed to FY22E. As a result, the REIT had 1.1msf of area expiring in FY22E (including FY21 rollover) of which the REIT manager was expecting to renew at least 40-50% of the area based on conservative estimates. A key monitorable. In Q1FY22, the REIT manager was able to renew 0.2msf of space but an additional 0.2msf of fresh exits led to same-store occupancy declining by 200bps QoQ to 89%. With another 0.9msf of exits/expiry in the remainder of FY22E, renewals of these expiries remain key. As per the REIT manager, while near-term pain may persist for another one to two quarters, leasing momentum should pick up from Q4FY22 resulting in occupancies recovering again.
- **On track to meet H1FY22 NDCF DPU guidance:** At the end of Q4FY21, the REIT manager had given a NDCF DPU guidance of Rs12.75/unit for H1FY22 and has declared a Q1FY22 NDCF DPU of Rs6.0/unit or 93% of the Q1FY22 NDCF of Rs6.42/unit. Factoring in lower occupancies across assets owing to fresh exits, we lower our FY22 NOI/NDCF estimates by 6%/8% to Rs7.0bn and Rs6.0bn, respectively and retain our FY23-24E estimates. We expect the REIT manager to meet its implied Q2FY22 NDCF DPU guidance of Rs6.75/unit.

Market Cap	Rs75.3bn/US\$1.0bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Bloomberg	BIRET IN	Revenue (Rs bn)	1.3	9.3	11.0	11.4
Shares Outstanding (mn)	302.8	Adjusted PAT (Rs bn)	0.3	4.2	4.7	5.0
52-week Range (Rs)	280/215	EPU (Rs)	4.3	13.9	15.4	16.6
Free Float (%)	NA	NDCF (Rs bn)	4.9	6.0	6.9	7.2
FII (%)	NA	P/E (x)	62.7	19.2	17.4	16.1
Daily Volume (US\$'000)	NA	P/B (x)	1.0	1.0	1.0	1.1
Absolute Return 3m (%)	(3.6)	Net D/E (x)	0.2	0.2	0.3	0.3
Absolute Return 12m (%)	NA	Distribution yield (%)	6.1	7.5	8.5	8.9
Sensex Return 3m (%)	(0.6)	RoCE (%)	NM	5.6	6.1	6.7
Sensex Return 12m (%)	65.2	RoE (%)	NM	5.2	5.9	6.5

*For representation purposes only

Overview of Assets

Table 1: Brookfield India REIT Initial Asset Portfolio and Call Option Properties

Portfolio (as of June 30, 2021)	Initial Portfolio				Call Option Properties	
Details	Kensington	Candor Techspace G2	Candor Techspace N1	Candor Techspace K1	Candor Techspace G1	Candor Techspace N2
SPV	Festus Properties Private Limited	Candor Kolkata One Hi-Tech Structures Private Limited	Shantiniketan Properties Private Limited	Candor Kolkata One Hi-Tech Structures Private Limited	Candor Gurgaon One Realty Projects Private Limited	Seaview Developers Private Limited
Interest Proposed to be owned by the REIT	100%	100%	100%	100%	NA	NA
Year of Commencement/Acquisition	2019	2015	2015	2015	2015	2015
Asset Type	SEZ	SEZ	SEZ	SEZ and mixed use	SEZ	SEZ
Micro-market	Powai, Mumbai	Sector 21, Gurugram	Sector 62, Noida	Rajarhat, Kolkata	Sector 48, Gurugram	Sector 135, Noida
Site Area (Acres)	8.96	28.53	19.25	48.38	25.18	29.65
Freehold/ Leasehold	Freehold	JD with GIL	Leasehold (90 Years)	Freehold	Freehold	Leasehold (90 Years)
Completed Area (msf)	1.5	3.9	1.9	3.1	3.7	3.6
Under Construction Area (msf)	0.0	0.0	0.1	0.0	0.0	0.0
Future Development Portfolio	0.0	0.1	0.9	2.7	0.0	0.9
Total Area (msf)	1.5	4.0	2.8	5.7	3.7	4.5
Leased Area (msf) (%)	1.3	3.4	1.3	2.8	2.6	3.0
Same-store Occupancy (%)*	82%	89%	94%	91%	93%	85%
WALE (Years)	2.4	7.1	6.9	7.0	8.0	8.6
In-Place Rent (Rs/rsf/month)	93	80	46	43	70	52

Source: Company, I-sec research, WALE = Weighted Average Lease Expiry, *Excluding N1 Tower 5 (481 KSF) completed in September 2020

Table 2: Q1FY22 Property Income Walkdown

MILLIONS	Q1 FY22	Q1 FY21	KEY DRIVERS
Income from Operating Lease Rentals (OLR)	Rs 1,616	Rs 1,507	<ul style="list-style-type: none"> Rs 109 million / 7.3% YOY increase primarily driven by contractual escalations
(+) CAM / Other Revenue	575	690	<ul style="list-style-type: none"> Rs 56 million / 8.1% YOY decrease primarily due to mid-year termination of CIOP's operating services arrangement with Identified Assets Rs 58 million / 8.5% YOY decrease primarily due to new vacancies and reduction in CAM expenses (cost-plus contracts)
Revenue from Operations	Rs 2,191	Rs 2,196	
(-) CAM / Other Direct Expenses	(494)	(533)	<ul style="list-style-type: none"> Rs 27 million / 5.1% YOY decrease due to mid-year termination of CIOP's operating services arrangement with Identified Assets Rs 11 million / 2.1% YOY decrease due to reduced utilization due to COVID-19 outbreak
Net Operating Income (NOI)	Rs 1,696	Rs 1,663	
(-) Net income in CIOP attributable from Identified Assets		(29)	<ul style="list-style-type: none"> Mid-year termination of CIOP's operating services arrangement with Identified Assets
Comparable NOI	Rs 1,696	Rs 1,634	
% Margin on OLR	105%	108%	

Source: Company, I-Sec research

Table 3: Q1FY22 Asset Wise Property Income Walkdown

MILLIONS	INCOME FROM OPERATING LEASE RENTALS (OLR)		REVENUE FROM OPERATIONS		NET OPERATING INCOME (NOI) ⁽¹⁾			
	Q1 FY22	Q1 FY21	Q1 FY22	Q1 FY21	Q1 FY22	% OLR	Q1 FY21	% OLR
Kensington	Rs 435	Rs 350	Rs 463	Rs 387	Rs 402	92%	Rs 324	92%
G2	632	637	889	925	675	107%	690	108%
N1	184	176	299	293	197	107%	204	115%
K1	364	343	540	534	385	106%	368	107%
CIOP			73	146	37		78	
Intercompany Eliminations ⁽²⁾			(73)	(89)				
Total	Rs 1,616	Rs 1,507	Rs 2,191	Rs 2,196	Rs 1,696	105%	Rs 1,663	110%
Less: amount attributable from Identified Assets ⁽³⁾			-	(56)			(29)	
Comparable Total	Rs 1,616	Rs 1,507	Rs 2,191	Rs 2,140	Rs 1,696	105%	Rs 1,634	108%

Source: Company, I-Sec research, (1) The NOI at SPV level is presented without intercompany eliminations, (2) Revenue earned by CIOP gets eliminated with corresponding operating and maintenance expenses at SPV level, (3) CIOP captures the revenue and NOI attributable from Identified Assets until termination of contract on August 31, 2020.

Table 4: Q1FY22 NDCF Buildup (period from February 8, 2021 to June 30, 2021)

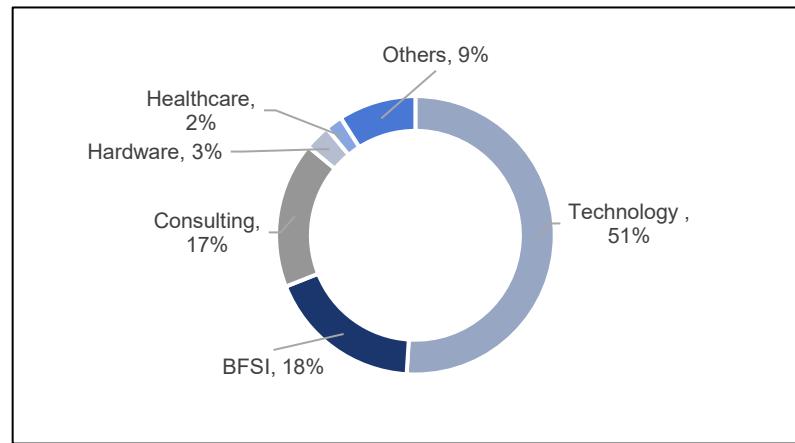
(Rs mn, year ending Mar 31)

Particulars	Rs mn
Income from Operating Lease Rentals	2,559
CAM / Other Revenue	941
Revenue from Operations	3,500
CAM / Other Direct Expenses	(787)
NOI	2,713
Property Management Fees	(53)
Net Other Expenses	(1,199)
EBITDA	1,461
Cash Taxes (Net of Refund)	470
Working Capital and Ind AS adjustments	967
Cashflow from Operations	2,898
Capex	(272)
Net Debt (Repayment) / Drawdown	90
Interest Cost on External Debt	(784)
NDCF (SPV Level)	1,932
NDCF - Interest	1,529
NDCF - Dividends	150
NDCF - Repayment of Shareholder Debt	297
REIT Expenses	(31)
NDCF (REIT Level)	1,901

Source: Company, I-Sec research

Strong tenant base across sectors

As of June 2021, BREIT has a well-diversified tenant portfolio across sectors with the technology sector (51%) and BFSI (18%) accounting for majority of the tenants across its office properties. The Initial Portfolio houses a diverse base of marquee tenants with 75% of Leased Area contracted with the top 10 tenants.

Chart 1: Industry Wise Tenant Breakup

Source: Company, I-Sec Research

Table 5: Top 10 clients form 75% of leased area

Tenant	# Parks	% Leased Area	Growth since Mar'15 ⁽¹⁾
TCS	2	18%	-
Accenture	2	16%	+123%
Cognizant	2	14%	+93%
Sapient	1	6%	+138%
RBS	1	5%	+7%
Barclays	1	5%	+60%
BA Continuum	1	3%	(52%)
Capgemini	1	3%	+30%
Amdocs	1	2%	+33%
E&Y	1	2%	(1%)
Total		75%	+35%

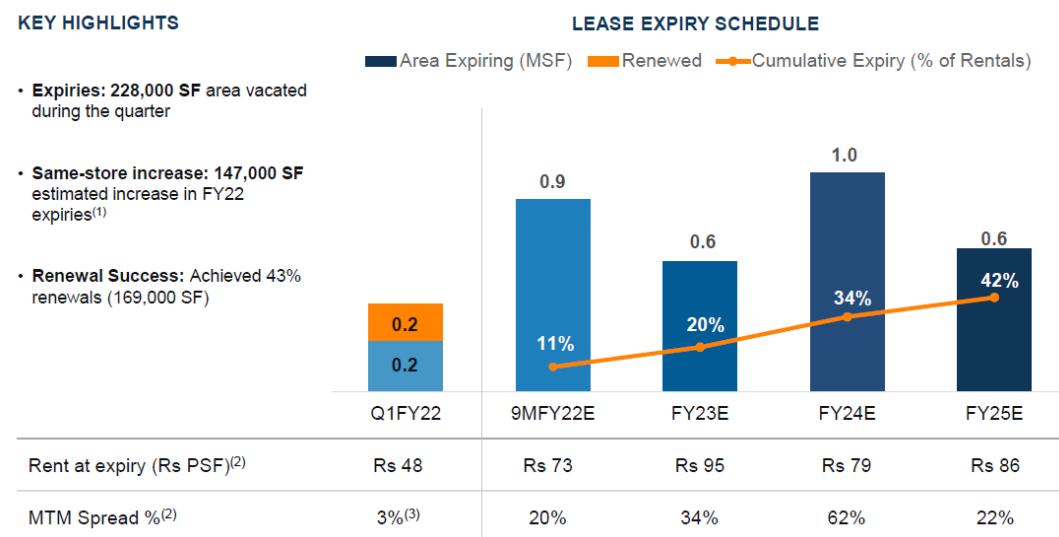
Source: Company, I-Sec Research, 1 - Adjusted for areas in Kensington, which were inherited in 2017 when the property management was taken over

Table 6: BREIT Q1FY22 leasing trends**SIGNED LEASES / RENEWALS**

Tenant / Industry	Industry	Assets / Area
TCS	Technology	K1
Artech Infosystem	HR Services	N1
BlueChip Hospitality	F&B	N1
Total		169,000 SF
Ongoing Discussions		462,000 SF
LOI Executed in N1		38,000 SF

Source: Company, I-Sec Research

Table 7: BREIT Portfolio lease expiry profile



Source: Company, I-Sec Research, (1) Based on on-going discussions with occupiers. BREIT will provide updated renewal guidance as and when it concludes its ongoing discussions, (2) Excludes amenity areas and area vacated in Q1FY22, (3) Re-leasing spread on renewed area, lower primarily due to large share being contributed by K1.

Table 8: BREIT Asset wise lease expiry schedule

Year / Asset	Area Expiring ('000 SF)	% of Gross Rentals ⁽¹⁾	In-place rent at Expiry (INR PSF) ⁽¹⁾
9M FY22E			
Kensington	-	-	-
G2	561	18%	90
N1	32	3%	44
K1	272	10%	43
Total – REIT	865	11%	Rs 73
FY23E			
Kensington	373	33%	Rs 104
G2	90	3%	90
N1	15	2%	-
K1	106	3%	50
Total – REIT	584	9%	Rs 95
FY24E			
Kensington	745	57%	Rs 91
G2	6	0%	-
N1	233	16%	40
K1	1	0%	-
Total – REIT	986	14%	Rs 79
FY25E			
Kensington	145	18%	Rs 148
G2	230	6%	96
N1	265	18%	44
K1	3	0%	-
Total – REIT	643	9%	Rs 86

Source: Company, I-Sec Research, (1) Excludes amenity area

Valuation

REITs derive cash flows in the form of interest, debt repayment and dividend payments from owned assets which have differing cash flow profiles. Unlike assets in Infrastructure Trusts like toll/annuity roads or power transmission assets which have a fixed tenure of operations, the underlying assets in REITs which consist of offices, malls and hotels are perpetual in nature and carry an element of capital appreciation as well through escalation in rentals, addition of new assets and ramp up in occupancies.

Hence, the total return offered by a REIT should be measured as a mix of annual distributions and capital appreciation of the units of the REIT. Hence, we prefer a DCF based approach which captures the upside from uptick in rental income along with the annual distribution of at least 90% of the Net Distributable Cash Flow (NDCF) to REIT unitholders.

Our key assumptions for Brookfield India REIT include:

- 4% annual increase in rentals from FY23E onwards
- 3% increase in market rentals for FY22E
- 4% terminal growth rate from FY30E
- Cap rate of 8% on Net Operation Income (NOI) of each asset
- Maximum stabilised long-term occupancy of 95% across assets
- WACC of 10.9% assuming 0.25x debt/equity with cost of equity of 12% and cost of debt of 7.5%.
- We have not assumed any injection of Call Option Properties and ROFO assets into the REIT

We cut our rating on Brookfield India REIT (BREIT) to ADD from BUY with a revised March 2022 DCF based target price of Rs293/unit owing to lower FY22E occupancies across assets.

At CMP of Rs267, we expect the BREIT to deliver NDCF distribution yield of 7.5% in FY22E, 8.5% in FY23E and 8.9% in FY24E. We expect over 30% of the distribution to be in the form of dividend and capital return with balance returns from interest post the conversion of CCDs in Candor Kolkata (G2+K1 SPV) to equity shares effective April 1, 2021.

We believe that upsides from addition of call option/ROFO assets, mark-to-market opportunity and rental appreciation beyond FY22E may enable the REIT to deliver annual REIT unit capital appreciation of 5-6% over and above the distribution yield.

Key downside risks to our thesis are the large-scale adoption of Work-from-Home by occupiers over the long term and rising interest rates globally.

Table 9: Return profile of Brookfield India REIT

Brookfield India REIT Cash Flows	FY22E	FY23E	FY24E
Revenue from Operations	9,267	11,022	11,359
Net Operating Income (NOI)	7,036	7,826	8,364
EBITDA	6,678	7,309	7,820
NDCF at SPV level	6,639	6,945	7,246
NDCF at REIT level*	6,030	6,873	7,171
NDCF Distribution Payout (%)	100%	100%	100%
NDCF Distribution by REIT*	6,030	6,873	7,171
Distribution per Unit*	19.9	22.7	23.7
Distribution Yield (%) *	7.5	8.5	8.9
NDCF % Breakup			
Interest	67.1%	60.8%	54.5%
Dividend	5.1%	7.2%	14.8%
Principal Repayment	27.7%	31.9%	30.6%
Total Distribution	100.0%	100.0%	100.0%

Source: Isec research estimates, *FY21E for illustration purposes only

Table 10: Valuation of Brookfield India REIT

Enterprise Value (Rs mn)	113,297
Less: FY22E REIT level net debt (Rs mn)	20,005
Less: Deposits (Rs mn)	4,514
Equity Value (Rs mn)	88,779
Equity Value per Unit (Rs)	293

Source: Isec research estimates

Table 11: Sensitivity of Target Price to Cap Rate and Cost of Equity

NAV	293	Cost of Equity (%)				
		10%	11%	12%	13%	14%
Cap Rate (%)	6%	416	393	372	351	332
	7%	366	346	327	309	292
	8%	329	310	293	277	262
	9%	299	283	267	252	238
	10%	276	261	246	232	219
	11%	257	243	229	216	204

Source: I-Sec research estimates

Financial summary (Consolidated)

Table 12: Profit and Loss statement

(Rs mn, year ending Mar 31)

Year ending March	FY21*	FY22E	FY23E	FY24E
Revenue from operations	1,309	9,267	11,022	11,359
Operating expenses	NM	2,231	3,196	2,995
Net Operating Income (NOI)	NM	7,036	7,826	8,364
<i>NOI margin (%)</i>	NM	75.9%	71.0%	73.6%
Other expenses/REIT expenses	484	358	517	544
EBITDA	825	6,678	7,309	7,820
% margins	63.0%	72.1%	66.3%	68.8%
Depreciation & Amortisation	317	1,059	1,124	1,169
Interest expenses	411	1,417	1,539	1,649
Other Income	52	54	57	60
Exceptional items	-	-	-	-
PBT	149	4,256	4,703	5,062
Less: Taxes	(104)	49	44	51
PAT before Minority/Associate	253	4,207	4,659	5,011
Minority Interest	-	-	-	-
Net Income (Adjusted)	253	4,207	4,659	5,011

Source: Company data, I-Sec research, *FY21E numbers for illustration purposes

Table 13: Balance sheet

(Rs mn, year ending Mar 31)

As at March	FY21*	FY22E	FY23E	FY24E
Assets				
Total Current Assets	3,831	4,582	4,004	2,460
<i>of which cash & cash eqv.</i>	3,155	4,055	3,476	1,929
Total Current Liabilities & Provisions	6,747	6,827	6,911	7,081
Net Current Assets	(2,916)	(2,244)	(2,906)	(4,621)
Other non-current assets/Investments	2,245	2,245	2,244	2,244
Net Fixed Assets	1,00,281	99,222	98,098	96,929
Capital WIP	792	2,401	3,974	5,698
Total Assets	1,00,401	1,01,623	1,01,410	1,00,250
Liabilities				
Borrowings	21,015	24,060	26,060	27,060
Net Worth	82,028	80,204	77,991	75,831
Minority Interest	-	-	-	-
Deferred Taxes	(2,641)	(2,641)	(2,641)	(2,641)
Total Liabilities	1,00,401	1,01,623	1,01,410	1,00,250

Source: Company data, I-Sec research, *FY21E numbers for illustration purposes

Table 14: Cashflow statement

(Rs mn, year ending Mar 31)

Year ending March	FY21*	FY22E	FY23E	FY24E
PBT	149	4,256	4,703	5,062
Interest income	(24)	78	82	168
Finance costs	411	1,417	1,539	1,649
Depreciation and amortisation expense	317	1,059	1,124	1,169
Others	24	-	-	-
Operating cash flows before working capital changes	876	6,810	7,448	8,048
Changes in Working Capital	(54)	-	-	-
Cash generated from operations	823	6,810	7,448	8,048
Income taxes paid, net	574	(49)	(44)	(51)
Operating Cashflow	1,396	6,761	7,405	7,997
Capital Commitments	(137)	(1,609)	(1,572)	(1,724)
Free Cashflow	1,259	5,152	5,832	6,273
Investments	(346)	-	-	-
Others	2	-	-	-
Cashflow from Investing Activities	(481)	(1,609)	(1,572)	(1,724)
Issue of Share Capital/(Distribution)	37,732	(6,030)	(6,873)	(7,171)
Inc (Dec) in Borrowings	(35,676)	3,045	2,000	1,000
Finance costs	(593)	(1,417)	(1,539)	(1,649)
Others	-	-	-	-
Cashflow from Financing activities	1,463	(4,402)	(6,412)	(7,820)
Chg. in Cash & Bank balances	2,378	749	(580)	(1,547)

Source: Company data, I-Sec research, *FY21E numbers for illustration purposes

Table 15: Key ratios

(Year ending Mar 31)

	FY21*	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Earnings per Unit	4.3	13.9	15.4	16.6
Distribution per unit (DPU)	16.2	19.9	22.7	23.7
Book Value per Unit (BV)	270.9	264.9	257.6	250.4
Growth (%)				
Net Sales	(86.3)	607.7	18.9	3.1
Net Operating Income	NA	NA	11.2	6.9
EBITDA	(86.1)	709.2	9.5	7.0
PAT	NM	1,562.6	10.7	7.6
Valuation Ratios (x)				
P/E	62.7	19.2	17.4	16.1
P/BV	1.0	1.0	1.0	1.1
Distribution Yield	6.1	7.5	8.5	8.9
Operating Ratios				
Debt/EBITDA (x)	25.5	3.6	3.6	3.5
Net D/E	0.2	0.2	0.3	0.3
Profitability/Return Ratios (%)				
RoE	NM	5.2	5.9	6.5
RoCE	NM	5.6	6.1	6.7
EBITDA Margins	63.0	72.1	66.3	68.8
Net Income Margins	19.3	45.4	42.3	44.1

Source: Company data, I-Sec research, *FY21E numbers for illustration purposes

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