

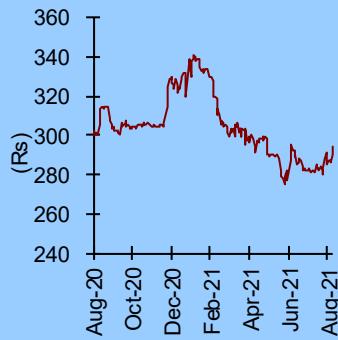
Q1FY22 result update
and TP change

Real Estate

Target price Rs341

Target price revision
Rs341 from Rs325

Price chart



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INDIA



Minspace Business Parks REIT

BUY
Maintain
Rs296

Resilient in tough times

Minspace Business Parks REIT (MREIT) delivered a resilient performance in Q1FY22 with office rental collections of over 99% and flattish QoQ revenue/NOI of Rs4.2/3.6bn at a healthy NOI margin of 85.7%. While same-store occupancy declined by 150bps QoQ to 80.3%, a key positive was re-leasing of 0.5msf of space vacated in FY21 and 0.4msf of re-leasing of FY22 expiries during the quarter. With another 1.6msf of expiries in the remainder of FY22, portfolio vacancy levels remain a key monitorable. We believe that the REIT's low leverage (net debt/TEV of 0.2x), marquee tenant profile and de-densification of offices will enable the REIT to deliver NOI CAGR of 12% over FY21-24E. We maintain our BUY rating on MREIT with a revised Mar'22 DCF based target price of Rs341/unit (earlier Rs325) factoring in balance sheet and SPV level occupancy/rental adjustments. Key risks to our call are further rise in vacancies across assets and fall in lease rentals.

- **FY22 lease expiries the key monitorable:** In FY21, MREIT saw 1.8msf of early exits of which 0.8msf had been re-leased while the scheduled expiries of 1.8msf had seen 1.3msf being re-released which had led to overall portfolio vacancy increasing by 1.5msf in FY21. At the beginning of FY22E, MREIT had 2.3msf of expiries (1.8msf scheduled expiries and 0.5msf of early expiries) which increased marginally by 0.1msf QoQ to 2.4msf as of Jun'21. In Q1FY22, MREIT was able to re-lease 0.4msf of scheduled expiries and also re-leased 0.5msf of area vacated in FY21. The REIT manager expects another 0.4msf of re-leasing in Q2FY22 as well. For FY22 overall, the REIT manager expects to lease 75% of scheduled expiries of 1.8msf excluding early expiries of 0.6msf (2.4msf of total expiries in FY22E). We believe that leasing momentum should pick up from Q3FY22 onwards barring any resurgence in the form of a third Covid wave.
- **Minspace REIT portfolio cushions the COVID-19 impact:** While incremental leasing is yet to pick up until international travel resumes and existing assets seeing tenant exits, the REIT's current tenant portfolio which has ~45% of tenants in the technology domain with even smaller verticals such as financial services and telecom/media consisting of Global in-house captives is resilient to near-term weakness, in our view. Currently, the REIT's top ten occupiers contribute ~39% of the gross overall rental income as of Jun'21.
- **Over 90% of FY22-24E distributions to be in the form of tax-free dividends:** MREIT announced a Q1FY22 NDCF of Rs2.7bn or Rs4.6/unit (annualised distribution yield of 6.2%) of which over 90% was in the form of tax-free dividends. At CMP of Rs296, we estimate NDCF yield of 6.0% in FY22E, 6.6% in FY23E and 7.1% in FY24E of which over 90% of distribution is expected to be in the form of tax-free dividend + capital return.

Market Cap	Rs176bn/US\$2.4bn	Year to Mar	FY21*	FY22E	FY23E	FY24E
Bloomberg	MINDSPCE IN	Revenue (Rs bn)	11.4	17.1	20.7	24.1
Shares Outstanding (mn)	593.0	Adjusted PAT (Rs bn)	3.1	5.6	6.7	7.9
52-week Range (Rs)	341/275	NDCF (Rs bn)	5.7	10.5	11.6	12.4
Free Float (%)	NA	Distribution/Unit (Rs)	9.6	17.6	19.6	20.9
FII (%)	NA	P/E (x)	38.2	31.6	26.2	22.4
Daily Volume (US\$'000)	1,256	P/B (x)	1.1	1.1	1.1	1.2
Absolute Return 3m (%)	3.8	Net D/E (x)	0.2	0.3	0.3	0.4
Absolute Return 12m (%)	1.8	Distribution yield (%)	6.5	6.0	6.6	7.1
Sensex Return 3m (%)	14.8	RoCE (%)	3.1	5.4	6.2	7.1
Sensex Return 12m (%)	48.3	RoE (%)	1.9	3.5	4.3	5.2

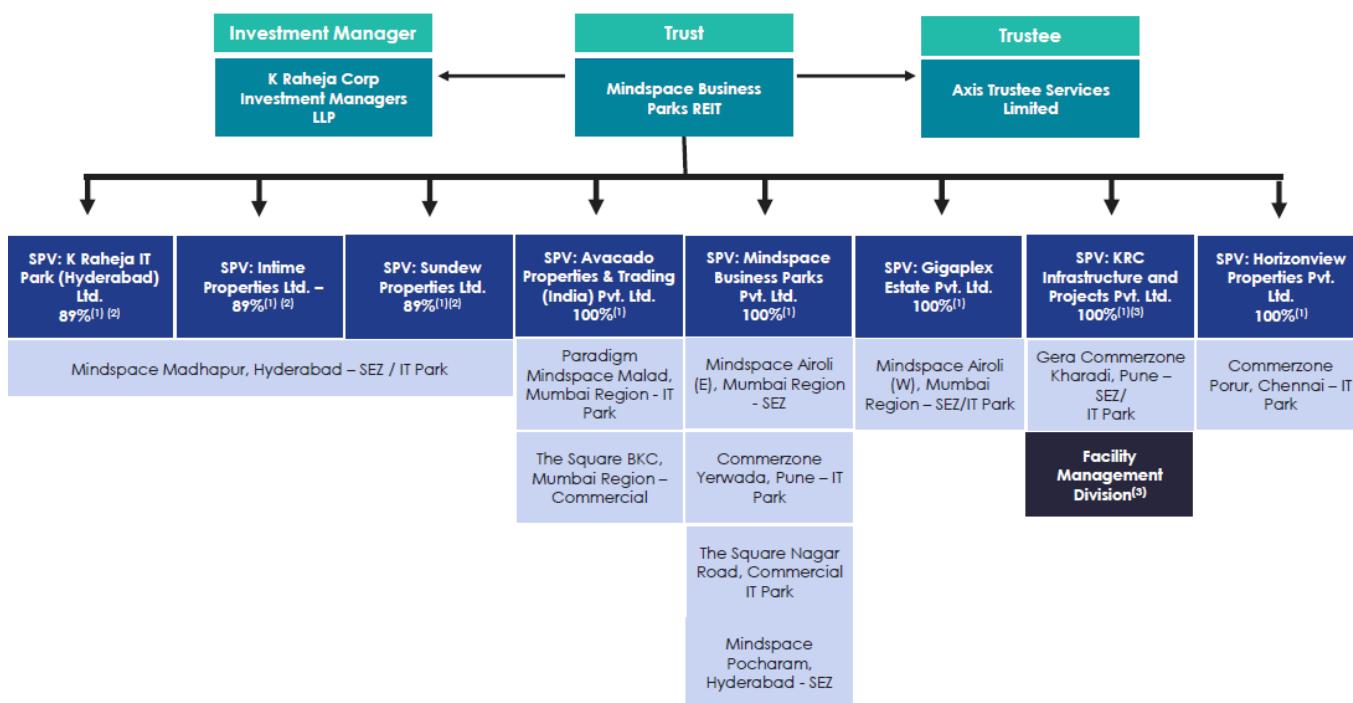
*For 8 months in FY21 from 7 Aug 2020 to Mar 2021

Company Profile

Mindspace Business Parks REIT owns five integrated business parks and five quality independent office assets across India with 23.8msf of completed leasable area and 7.4msf of under construction and future development pipeline. As of 30 June 2021, the Portfolio is stabilized with 84.4% Committed Occupancy and a Weighted Average Lease Expiry (WALE) of 6.6 years. It was listed on August 7, 2020.

Mindspace REIT is sponsored by the KRC Group (K Raheja Corp.), a prominent real-estate development and retail business group, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, malls and residential segments. The KRC Group has acquired and/or developed properties across various businesses, entailing approximately 28.5msf of commercial real estate, six operational malls, 2,554 operational hotel keys and residential projects across five cities in India as of March 31, 2020. These entities include Chalet Hotels, Inorbit Malls, Shoppers Stop outlets and KRCPL. KRC Group holds 63.2% of Mindspace Business Parks REIT.

Chart 1: Mindspace Office Parks REIT Company Structure



Source: Company, I-sec research, (1) 1% indicates Mindspace REIT's shareholding in respective Asset SPVs; (2) 11% shareholding in these Asset SPVs is held by Telangana State Industrial Infrastructure Corporation Limited (TSIIC); (3) KRC Infra has commenced facility management division from 01 Oct 20 under brand name "CAMPLUS"

Overview of Assets

Table 1: Mindspace Business Parks REIT Asset Portfolio (as of June 2021)

Portfolio	Total Leasable Area (msf)	Completed Area (msf)	Current Occupancy (%)	WALE (years)	In-Place Rent (Rs/psf/month)
Mumbai Region:	12.8	9.2	78.4%	5.5	57.6
Mindspace Airoli East	6.8	4.7	89.1%	5.2	52.6
Mindspace Airoli West	5.1	3.6	63.8%	6.4	56.8
Paradigm Mindspace Malad	0.7	0.7	94.0%	3.5	91.4
The Square, BKC	0.1	0.1	-	-	-
Hyderabad:	12.6	10.2	83.7%	7.3	53.9
Mindspace Madhapur	11.6	9.8	84.2%	7.5	54.9
Mindspace Pocharam	1.0	0.4	71.1%	1.5	21.3
Pune:	5.0	3.7	91.7%	7.1	64.2
Commerzone Yerwada	1.7	1.7	98.4%	5.0	60.2
Gera Commerzone Kharadi	2.6	1.3	93.1%	10.8	71.0
The Square, Nagar Road	0.7	0.7	73.4%	5.3	61.3
Chennai:	0.8	0.8	8.3%	8.3	64.0
Commerzone Porur	0.8	0.8	8.3%	8.3	64.0
Facility Management Division	-	-	-	-	-
Total	31.2	23.8	80.3%	6.6	57.1

Source: Company, I-sec research, WALE = Weighted Average Lease Expiry

Table 2: Q1FY21-Q1FY22 Asset Wise Performance

(Rs mn, year ending Mar 31)

Consolidated	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Asset Wise Revenues:					
Mindspace Airoli (E)	900	887	908	895	884
Mindspace Airoli (W)	508	484	506	529	475
Mindspace Malad	194	203	192	185	185
Mumbai Total	1,602	1,574	1,606	1,609	1,544
Gera Commerzone Kharadi	136	252	287	326	327
The Square Nagar Road	187	177	144	116	109
Commerzone Yerwada	368	379	391	398	391
Pune Total	691	808	822	840	827
Mindspace Madhapur	1,525	1,599	1,691	1,776	1,783
Mindspace Pocharam	27	29	24	25	23
Hyderabad Total	1,552	1,628	1,715	1,801	1,806
Others	-	-	20	16	22
Total Revenues	3,845	4,010	4,163	4,266	4,199
Asset Wise NOI:					
Mindspace Airoli (E)	717	703	697	707	697
Mindspace Airoli (W)	420	374	423	407	392
Mindspace Malad	169	185	174	161	160
Mumbai Total	1,306	1,262	1,294	1,275	1,249
Gera Commerzone Kharadi	103	225	258	258	288
The Square Nagar Road	156	152	118	86	84
Commerzone Yerwada	296	315	323	325	325
Pune Total	555	692	699	669	697
Mindspace Madhapur	1,339	1,405	1,514	1,569	1,591
Mindspace Pocharam	23	24	22	16	18
Hyderabad Total	1,362	1,429	1,536	1,585	1,609
Others	-5	-17	49	50	42
Total Net Operating Income (NOI)	3,218	3,366	3,578	3,579	3,597

Source: Company, I-Sec research

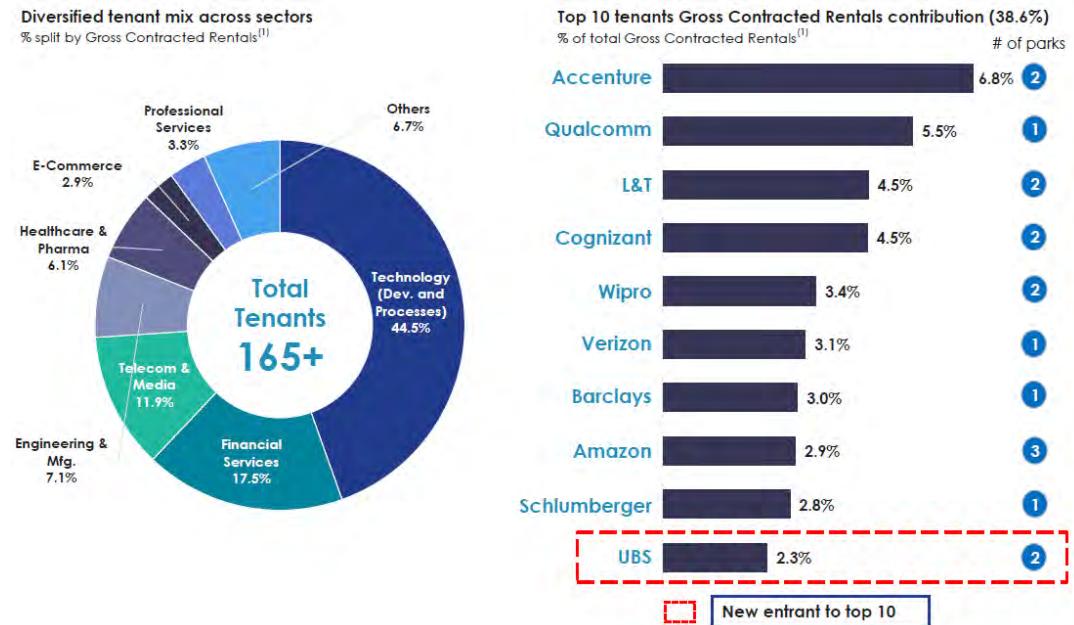
Table 3: Q3FY21-Q1FY22 NDCF Buildup

(Rs mn, year ending Mar 31)

Particulars	Q3FY21	Q4FY21	Q1FY22
Revenue from Operations	4,163	4,341	4,197
Property Taxes & Insurance	(134)	(163)	(139)
Other Direct Operating Expenses	(451)	(598)	(462)
Net Operating Income (NOI)	3,578	3,580	3,596
Property Management Fees	(105)	(109)	(105)
Net Other Expenses	(121)	(163)	(143)
EBITDA	3,352	3,308	3,348
Cash Taxes (Net of Refunds)	(378)	33	(433)
Working Capital changes and other changes	(465)	(218)	(778)
Cashflow from Operations	2,509	3,123	2,137
Capex including capitalized Interest	(1,740)	(859)	(1,141)
Net Debt (repayment) / drawdown	2,916	1,330	2,563
Finance Costs paid for the period (excluding interest to REIT)	(477)	(383)	(288)
Proceeds to shareholders other than Mindspace REIT	(187)	(231)	(233)
NDCF (SPV Level)	3,021	2,980	3,038
Net Distributions from SPV to REIT	2,864	2,935	2,851
Other Inflows / (Outflows) at REIT Level	(25)	(69)	(119)
NDCF (REIT Level)	2,839	2,866	2,732
Distributions	2,834	2,852	2,728
Dividend	2,520	2,633	2,508
Interest	314	219	220

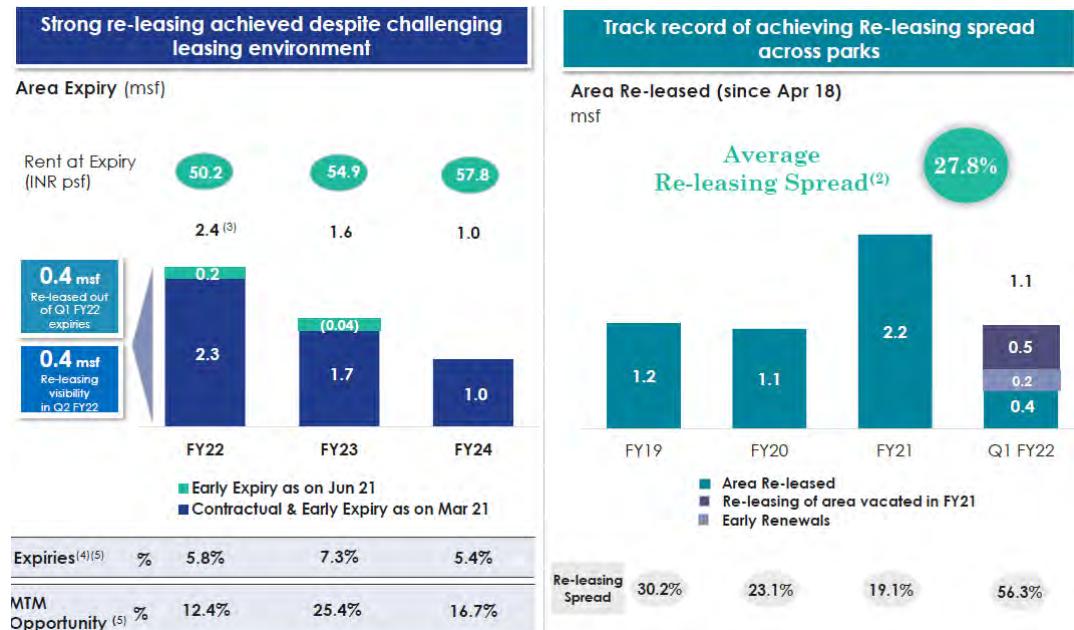
Source: Company, I-Sec research

Chart 2: MREIT Sectoral and Tenant Wise Breakup



Source: Company, I-Sec research, (1) Basis Gross Contracted Rentals as on 30 Jun 21

Chart 3: MREIT REIT Lease Expiry Profile



Source: Company, I-Sec research, (1) Excluding 0.36msf area under re development at 1A and 1B; (2) Re-leasing spread includes spread on extensions and vacant area; (3) Excludes early re leasing of 175,000sf during the quarter; (4) Gross rent as % of total rent of Completed Area as of 30 Jun 21; (5) FY22 data pertains to 1.3 msf expiries between Q2 Q4 FY22

Chart 4: MREIT REIT SPV Wise Breakup of Lease Expiry Profile

Asset	Area Expiring (msf)	9M FY22		Area Expiring (msf)	FY23		Area Expiring (msf)	FY24	
		% of Gross Contracted Rentals	Rent at Expiry (INR psf)		% of Gross Contracted Rentals	Rent at Expiry (INR psf)		% of Gross Contracted Rentals	Rent at Expiry (INR psf)
Mindspace Airoli East	0.5	11.8%	51	0.3	6.2%	52	0.2	5.6%	52
Mindspace Airoli West	0.2	8.1%	58	0.2	8.6%	52	0.1	5.1%	55
Mindspace Malad	-	0.6%	74	0.1	14.8%	92	0.1	13.4%	105
The Square BKC	-	-	-	-	-	-	-	-	-
Mumbai Region	0.7	8.9%	53	0.6	8.3%	58	0.4	6.6%	63
Gera Commerzone Kharadi	-	-	-	-	-	-	-	-	-
The Square Nagar Road	-	-	-	-	-	-	-	-	-
Commerzone Yerwada	0.1	6.4%	64	0.2	9.6%	52	0.1	10.7%	78
Pune	0.1	3.2%	64	0.2	4.7%	52	0.1	5.3%	78
Mindspace Madhapur	0.4	3.9%	51	0.7	7.8%	53	0.4	4.1%	52
Mindspace Pocharam	0.1	52.3%	22	-	-	-	0.1	35.2%	26
Hyderabad	0.5	4.4%	43	0.7	7.7%	53	0.5	4.5%	48
Commerzone Porur	-	-	-	-	-	-	-	-	-
Chennai	-	-	-	-	-	-	-	-	-
Portfolio Total	1.3	5.8%	50	1.6	7.3%	55	1.0	5.4%	58

Source: Company, I-Sec research; (1) As of 30 Jun 21

Chart 5: MREIT Debt Maturity Schedule as on 30 June 2021

Description (INR Mn)	Fixed/ Floating	Total Facility	Undrawn Facility	Principal O/S	Interest Rate (p.a.p.m.)	Wt. Avg. Maturity (Years)	Principal Repayment						
							9M FY22	FY23	FY24	FY25	FY26	FY27	FY28 & beyond
At REIT Level													
MLD (Tranche 1)	Fixed	5,000	-	5,000	6.60%	0.8	-	5,000	-	-	-	-	5,000
NCD (Tranche 1)	Fixed	2,000	-	2,000	6.42%	2.5	-	-	2,000	-	-	-	2,000
MLD (Tranche 2)	Fixed	3,750	-	3,750	6.46%	2.9	-	-	-	3,750	-	-	3,750
NCD (Tranche 2)	Fixed	750	-	750	6.64%	2.9	-	-	-	750	-	-	750
At SPV Level													
TL - MBPPL	Floating	14,143	-	12,173	7.22%	9.0	760	1,131	1,274	1,524	1,694	1,913	3,877 12,173
TL - Sundew	Floating	6,444	672	5,239	7.17%	7.6	229	375	448	517	624	718	2,328 5,239
TL - KRC Infra	Floating	5,550	863	4,634	6.85%	8.6	194	304	381	436	502	602	2,216 4,634
LAP - Horizonview	Floating	1,000	200	800	7.15%	2.5	-	-	800	-	-	-	800
TL - Gigaplex	Floating	1,000	100	868	7.20%	2.6	59	88	721	-	-	-	868
OD / LOC	Floating	7,368	2,681	4,687	7.61%	7.0	55	-	301	-	-	-	4,331 4,687
Total		47,005	4,516	39,903	7.01%	6.2	1,297	6,898	5,926	6,976	2,820	3,234	12,752 39,903
Repayment (%)													
													3.3% 17.3% 14.9% 17.5% 7.1% 8.1% 32.0% 100%

Source: Company, I-Sec research

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 Mindspace REIT include:

- 3% increase in market rentals for FY22E and 5% post FY23E
- 4% terminal growth rate from FY31E
- Cap rate of 8% on Net Operation Income (NOI) of each asset
- Maximum stabilised long-term occupancy of 95% across assets
- WACC of 10.1% assuming 0.3x debt/equity with cost of equity of 12% and cost of debt of 9%.
- 3msf of under construction assets to become operational by FY23E
- We have not assumed any injection of ROFO assets into the REIT

Maintain BUY rating

We maintain our BUY rating on MREIT with a revised Mar'22 DCF based target price of Rs341/unit (earlier Rs325) factoring in balance sheet and SPV level occupancy/rental adjustments. At CMP of Rs296, we estimate NDCF yield of 6.0% in FY22E, 6.6% in FY23E and 7.1% in FY24E of which over 90% is estimated to consist of tax-free dividends. Key risks to our call are further rise in vacancies across assets and fall in lease rentals.

Table 4: Cash Flow/Distribution profile of Mindspace REIT

Minspace REIT Cash Flows (Rs mn)	FY21A	FY22E	FY23E	FY24E
Revenue from Operations	16,293	17,106	20,662	24,131
Net Operating Income (NOI)	13,741	13,790	16,701	19,348
EBITDA	NA	12,564	15,164	17,467
NDCF at SPV level	5,581*	10,559	11,954	15,264
NDCF at REIT level	5,706*	10,463	11,621	12,389
NDCF Distribution Payout (%)	100%	100%	100%	100%
NDCF Distribution by REIT	5,687*	10,463	11,621	12,389
Distribution per Unit	9.59*	17.64	19.60	20.89
Distribution Yield (%)	6.5	6.0	6.6	7.1

Source: I-Sec research estimates, *For 6 months in FY21 from Oct 2020 to Mar 2021

Table 5: Valuation of Mindspace REIT

Enterprise Value	255,982
Less: FY22E REIT level net debt	45,545
Less: Deposits	8,366
Equity Value	202,071
Equity Value per Unit	341

Source: Isec research estimates

Table 6: Sensitivity of Target Price to Cap Rate and Cost of Equity

NAV	325	Cost of Equity (%)				
		10%	11%	12%	13%	14%
Cap Rate (%)	6%	483	456	431	408	385
	7%	425	402	380	359	339
	8%	382	361	341	322	304
	9%	348	329	311	293	277
	10%	321	303	286	270	255
	11%	299	282	267	252	237

Source: I-Sec research estimates

Table 7: Sensitivity of Target Price to Cap Rate and Rental Growth

NAV	325	Rental Growth Rate – FY23E onwards (%)				
		3%	4%	5%	6%	7%
Cap Rate (%)	6%	412	422	431	442	452
	7%	363	371	380	389	398
	8%	326	333	341	349	357
	9%	297	304	311	318	325
	10%	274	280	286	293	300
	11%	255	261	267	273	279

Source: I-Sec research estimates

Financial summary (Consolidated)

Table 8: Profit and Loss statement

(Rs mn, year ending Mar 31)

Year ending March	FY21*	FY22E	FY23E	FY24E
Revenue from operations	11,381	17,106	20,662	24,131
Operating expenses	1,783	3,315	3,961	4,783
Net Operating Income (NOI)	9,598	13,790	16,701	19,348
<i>NOI margin (%)</i>	84.3%	80.6%	80.8%	80.2%
Other expenses/REIT expenses	1,316	1,227	1,538	1,881
EBITDA	8,282	12,564	15,164	17,467
<i>% margins</i>	72.8%	73.4%	73.4%	72.4%
Depreciation & Amortisation	1,964	1,948	2,204	2,446
Interest expenses	1,707	3,083	3,784	4,130
Other Income	184	989	1,000	986
Exceptional items	(1)	-	-	-
PBT	4,794	8,521	10,175	11,877
Less: Taxes	1,445	2,556	3,052	3,563
PAT before Minority/Associate	3,349	5,965	7,122	8,314
Minority Interest	274	405	428	463
Net Income (Adjusted)	3,075	5,560	6,694	7,851

Source: Company data, I-Sec research estimates, *For 8 months in FY21 from 7 Aug 2020 to Mar 2021

Table 9: Balance sheet

(Rs mn, year ending Mar 31)

As at March	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	5,567	9,264	11,710	6,952
<i>of which cash & cash eqv.</i>	3,662	7,345	9,778	5,005
Total Current Liabilities & Provisions	12,438	12,734	12,782	12,832
Net Current Assets	(6,871)	(3,470)	(1,072)	5,880
Other non-current assets/Goodwill*	5,658	5,608	5,558	5,508
Investments	18	28	38	38
Net Fixed Assets	1,96,136	1,98,734	1,99,104	1,96,658
Capital WIP	15,339	19,885	22,460	25,845
Total Assets	2,10,280	2,20,785	2,26,088	2,22,169
Liabilities				
Borrowings	37,858	52,891	62,722	62,924
Net Worth	1,63,030	1,58,097	1,53,140	1,48,557
Minority Interest	9,104	9,509	9,937	10,400
Deferred Taxes	288	288	288	288
Total Liabilities	2,10,280	2,20,785	2,26,088	2,22,169

Source: Company data, I-Sec research estimates

Table 10: Cashflow statement

(Rs mn, year ending Mar 31)

Year ending March	FY21	FY22E	FY23E	FY24E
PBT	4,794	8,521	10,175	11,877
Interest income and fair value change in financial assets	(133)	(989)	(1,000)	(986)
Finance costs	1,707	3,083	3,784	4,130
Depreciation and amortisation expense	1,964	1,948	2,204	2,446
Others	145	-	-	-
Operating cash flows before working capital changes	8,477	12,564	15,164	17,467
Changes in Working Capital	(382)	332	84	86
Cash generated from operations	8,095	12,896	15,248	17,553
Income taxes paid, net	(570)	(2,556)	(3,052)	(3,563)
Operating Cashflow	7,525	10,340	12,195	13,990
Capital Commitments	(3,585)	(9,092)	(5,149)	(3,386)
Free Cashflow	3,940	1,248	7,046	10,604
Investments	(456)	(10)	(10)	-
Others	13,908	989	1,000	986
Cashflow from Investing Activities	9,867	(8,113)	(4,160)	(2,400)
Issue of Share Capital/(Distribution)	6,483	(10,493)	(11,651)	(12,434)
Inc (Dec) in Borrowings	(19,813)	15,033	9,832	201
Finance costs	(1,697)	(3,083)	(3,784)	(4,130)
Others	(17)	-	-	-
Cashflow from Financing activities	(15,044)	1,456	(5,603)	(16,362)
Chg. in Cash & Bank balances	2,348	3,683	2,432	(4,773)

Source: Company data, I-Sec research estimates

Table 11: Key ratios

(Year ending Mar 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Earnings per Unit	7.7	9.4	11.3	13.2
Distribution per unit (DPU)*	9.6	17.6	19.6	20.9
Book Value per Unit (BV)	274.9	266.6	258.2	250.5
Growth (%)				
Net Sales	(35.6)	50.3	20.8	16.8
Net Operating Income	(21.7)	43.7	21.1	15.9
EBITDA	(25.5)	51.7	20.7	15.2
PAT	(35.2)	80.8	20.4	17.3
Valuation Ratios (x)				
P/E	38.2	31.6	26.2	22.4
P/BV	1.1	1.1	1.1	1.2
Distribution Yield*	6.5	6.0	6.6	7.1
Operating Ratios				
Debt/EBITDA (x)	4.6	4.2	4.1	3.6
Net D/E	0.2	0.3	0.3	0.4
Profitability/Return Ratios (%)				
RoE	1.9	3.5	4.3	5.2
RoCE	3.1	5.4	6.2	7.1
EBITDA Margins	72.8	73.4	73.4	72.4
Net Income Margins	27.0	32.5	32.4	32.5

Source: Company data, I-Sec research, *For 6 months in FY21 from October 2020 to March 2021

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