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# IPO REPORT

**“Subscribe for Long Term” to  
Brookfield India Real Estate Trust**

Can be considered by risk savvy investors

## Salient features of the IPO:

- Brookfield India Real Estate Trust** (Brookfield REIT), backed by Canadian asset manager - Brookfield Asset Management Inc., is planning to raise Rs. 38,000mn through an REIT IPO, which will open on 3<sup>rd</sup> Feb. and close on 5<sup>th</sup> Feb. 2021. The price band is Rs. 274 - 275 per unit.
- The issue consists of fresh issue. Of the net proceeds from the fresh issue, Rs. 35,750mn will be utilized for the repayment/prepayment of existing debt availed by its asset SPVs.
- On 27<sup>th</sup> Jan. 2021, Brookfield REIT and its asset SPVs are assigned a corporate credit rating of "Provisional CCR AAA/Stable" by Crisil Ltd.

## Key competitive strengths:

- Global sponsorship with local expertise
- Difficult to replicate, dominant and strategically located properties
- Placemaking capabilities
- Diversified blue chip tenant roster and cash flow stability
- Significant identified internal and external growth opportunities
- Experienced, cycle-tested senior management team
- Institutional corporate governance framework and strong alignment of interests

## Risk and concerns:

- Weakness or unfavorable global economic outlook
- Uncertainties on the duration and long-term impact of the Covid-19 pandemic
- Higher adoption of work-from-home operating model by the tenants post Covid-19
- Inability to maintain the desired occupancy levels
- Unfavorable rental rates
- Delay in the execution of under construction areas
- Unfavorable interest/finance costs
- Unfavorable change in government policies & regulations

**Peer comparison and valuation:** At the higher price band of Rs. 275 per share, Brookfield REIT's unit is valued at 88.4% of its net asset value (NAV), as compared to peer average of 96.9%.

## Below are few key observations of the issue: (continued in next page)

- Over the last two decades, India has emerged as a leading hub for technology and corporate services due to its favorable demographics, large talent pool and competitive cost advantage in providing high value-added services. This has led to an increased demand for quality office space from multinational as well as large domestic corporations.
- Brookfield REIT is India's only institutionally managed public commercial real estate vehicle. Sponsored by an affiliate of Brookfield Asset Management (BAM), one of the world's largest alternative asset managers with approximately USD 575bn in assets under management (as of 30<sup>th</sup> Sept. 2020) across real estate, infrastructure, renewable power, private equity and credit. Its goal is to be the leading owner of high quality income producing commercial real estate assets in key gateway Indian markets, which have significant barriers to entry.

Recommendation	Subscribe for Long Term
Price band	Rs. 274 - 275 per Share
Net asset value (as on 30 <sup>th</sup> Sept. 2020)	Rs. 311 per unit
Units for fresh issue	138.2 - 138.7mn units (Rs. 38,000mn)
Units for OFS issue	Nil
Total issue size	138.2 - 138.7mn units (Rs. 38,000mn)
Bidding Date	3 <sup>rd</sup> Feb. - 5 <sup>th</sup> Feb. 2021
Post-issue equity value	Rs. 83,270mn
Trustee	Axis Trustee Services Ltd.
Sponsors	BSREP India Office Holdings V Pte. Ltd.
Manager	Brookprop Management Services Pvt. Ltd.

Book Running Lead Manager

Morgan Stanley India Company Pvt. Ltd., BofA Securities India Ltd., Citigroup Global Markets India Pvt. Ltd., HSBC Securities and Capital Markets (India) Pvt. Ltd., Ambit Pvt. Ltd., Axis Capital Ltd., IIFL Securities Ltd., JM Financial Ltd., J.P. Morgan India Pvt. Ltd., Kotak Mahindra Capital Company Ltd. and SBI Capital Markets Ltd.

Registrar	Link Intime India Pvt. Ltd.
Sector/Industry	Investment companies

## Issue structure details

Institutional investors	103.6 - 104mn units (75% of the issue)
Non-institutional portion	34.5 - 34.7mn units (25% of the issue)

## Application money at higher cut-off price per lot

Number of Shares per Lot	200
Application Money	Rs. 55,000 per Lot

## Analyst

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Financial snapshot (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations	8,218	8,959	9,567	8,871	9,997	11,024
Net operating income	5,902	6,284	6,763	6,784	7,690	8,186
EBITDA	5,438	5,563	5,936	6,369	7,180	7,648
Cash flow from operating activities	4,149	5,076	5,322	6,158	7,402	7,976
Net distributable cash flow				1,227	6,620	7,018

Source: Choice Broking Research



## Peer comparison and valuation (Contd...):

Peer comparison	Brookfield India Real Estate Trust	Mindspace Business Parks REIT	Embassy Office Parks REIT
Total leasable area (mnsf)	14.0	29.5	33.3
Same store committed occupancy	92.0%	94.7%	93.4%
In-place rent (psf)	62.0	54.4	70.0
NOI margin	75.7%	83.8%	89.0%
WALE (years)	7.1	5.6	6.5
Mark-to-market headroom to in-place rents	36.0%	16.9%	28.0%
NAV per unit	311	338.4	375.0
Anticipated yield	8-8.5%	6-6.5%	

Note: Choice Broking Research

- It owns a portfolio of four large campus-format office parks, located in some of India's key gateway markets - Mumbai, Gurugram, Noida and Kolkata. The portfolio totals 14.0mnsf (million sq. ft.), comprising 10.3msf of completed area, 0.1msf of under construction area and 3.7msf of future development potential.
- The office parks are fully-integrated with modern infrastructure and amenities, including daycare facilities, premium F&B outlets, convenience shopping kiosks, shuttle services, multi-cuisine food courts and sports & fitness facilities, which create an empowering and vibrant work environment for its tenant's employees.
- Brookfield REIT office parks are recently built, with a median age of seven years and thus require limited ongoing maintenance capital expenditures. Existing properties are strategically located in established micro-markets with easy access to mass transportation and are characterized by high barriers to entry for new supply, limited vacancy and robust historical rental growth rates. Many of Brookfield REIT office parks command premium rents and have higher occupancies than the average rents and occupancies of the broader markets. Between Apr. 2015 and Sept, 2020, in-place rents per sq.ft. has grown by 4.8%, demonstrating the healthy rental growth for the Brookfield REIT's office parks.
- The portfolio's completed area has same store committed occupancy of 92% and is leased to marquee tenants such as Barclays, Bank of America Continuum, RBS, Accenture, Tata Consultancy Services and Cognizant. These marquee MNCs are from diverse range of industries such as technology, financial services, consulting, analytics and healthcare; and contribute around 75% to the Brookfield REIT gross contracted rentals. The portfolio has a staggered expirations schedule with a weighted average lease expiry (WALE) period of 7.1 year, which provides stability to the future cash flows.
- Brookfield REIT's existing portfolio is well positioned to achieve further organic growth through a combination of contractual lease escalations, 36% mark-to-market headroom to in-place rents, lease-up of vacant space and near-term completion of under construction area (which is expected to be completed by Sept. 2021). These factors create a strong foundation for organic cash flow growth. Net operating income (NOI) from the existing portfolio is projected to grow by 25% over FY23. These NOI drivers will contribute to an increase in the value of the underlying properties and the potential to produce attractive returns for the unit holders.
- Brookfield REIT intends to leverage Brookfield Group's real estate holdings in India by entering into agreements that provides it the rights to acquire their existing properties. Brookfield REIT has an exclusive right to acquire one office park in each of Gurugram and Noida (identified assets), that are near-stabilization and currently owned by members of the Brookfield Group. These assets encompass 8.3msf of office space. Additionally, Brookfield REIT will also benefit from rights of first offer (RoFO) on Brookfield Group's 100% owned commercial real estate assets (RoFO properties) in India's financial capital, Mumbai, comprising 6.7msf in office space. Thus the existing portfolio, identified assets and ROFO properties combined has the potential to almost double Brookfield REIT portfolio's leasable area to around 29msf.
- The trust has reported a short financial history. Over FY18-20, rental income increased by 8.8% CAGR, while income from maintenance services increased by 5.7% CAGR. These income streams contributed an average of 61.2% and 35.2%, respectively, to the top-line during the period. Consequently, top-line increased by 7.9% CAGR over the period to Rs. 9,567mn in FY20. Net operating income (NOI) and EBITDA increased by 7% and 4.5% CAGR, respectively, with an average margin of 70.9% and 63.4% during FY18-20. The REIT reported an exceptional item of Rs. 2,495mn in FY20, largely on account of write back of doubtful advances, thus adjusted PAT was at loss in two out of three reported financial years. Cash flow from operating activities increased by 13.3% CAGR over FY18-20 with an average CFO of Rs. 4,848.9mn.
- For H1 FY21, Brookfield REIT reported a top-line of Rs. 4,551mn, while NOI and EBITDA margin stood at 75.7% and 71%, respectively. Based on the projections provided in the RHP, top-line is likely to increase by 4.8% CAGR, while NOI and EBITDA are expected to increase by 6.6% and 8.8%, respectively, over FY20-23. CFO is also forecasted to rise by 14.4% CAGR during the period. Incremental business growth over FY20-23 is likely to be aided by - income from already leased areas, contractual escalations, lease-up of vacant & under construction areas and MTM benefits.
- As per the valuer, the pre-issue gross fair value of the assets is around Rs. 114,074mn. This is an indicative value of the asset and would be realized if it is monetized. At the higher price band of Rs. 275 per share, Brookfield REIT's unit is valued at 88.4% of its net asset value (NAV), as compared to peer average of 96.9%. Thus the issue is fairly priced.

Since technology companies accounts for around 50% of the leased area of existing portfolio and considering their positive outlook (technology sector), we don't think there will be any concerns on future tenancy. Based on the projected distribution schedule, pre-tax yield would remain in the range of 8-8.5% in FY23E. With interest rate at lower levels in the economy, the projected yield from this REIT seems to be attractive. Thus considering the above observations, we assign a **"Subscribe for Long Term"** rating for the issue.

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