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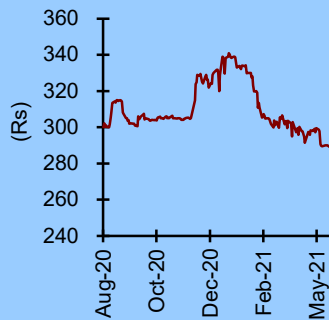
Q4FY21 result review
and TP change

Real Estate

Target price Rs318

Target price revision
Rs318 from Rs342

Price chart



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INDIA



Mindspace Business Parks REIT

ADD

Maintained

Rs289

Near-term weakness to persist

Mindspace Business Parks REIT (MREIT) delivered an inline Q4FY21 performance with office rental collections of over 99% and revenue/NOI of Rs4.3/3.6bn at a healthy NOI margin of 83.9%. MREIT announced its second quarterly NDCF of Rs2.85bn or Rs4.81/unit. However, a dampener was overall portfolio occupancy falling by 350bps QoQ to 81.8% from 85.3% with exits in Hyderabad and Airoli West assets. With another 2.3msf of expiries in FY22E, portfolio vacancy levels are at risk of increasing further heading into FY22E. Taking into account that incremental office leasing may not improve until international travel opens up earliest by Sep'21, we have assumed lower asset level occupancies and have cut our FY22/23E NOI estimates by 3% and NDCF estimates by 2%, respectively. We retain our ADD rating on MREIT with a revised Mar'22 DCF based target price of Rs318/unit (earlier Rs342). At CMP of Rs289, we estimate NDCF yield of 6.3% in FY22E and 6.9% in FY23E 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.

- ▶ **Steady operating performance:** MREIT reported Q4FY21 revenue and Net Operating Income (NOI) of Rs4.3bn and 3.6bn at a healthy NOI margin of 83.9%. The REIT has reported resilient rental collections of over 99% in FY21 (in line with other listed peers).
- ▶ **Vacancy levels rise QoQ on early exits:** A dampener in Q4FY21 was overall portfolio occupancy falling by 350bps QoQ to 81.8% from 85.3% with further early exits of 0.2msf in Q4FY21. For FY21 overall, MREIT has seen 1.8msf of early exits of which 0.8msf has been re-leased while the scheduled expiries of 1.8msf have seen 1.3msf being re-leased which has led to overall portfolio vacancy increasing by 1.5msf in FY21. With another 2.3msf of expiries in FY22E including 0.5msf of early expiries, portfolio vacancy levels are at risk of increasing further in FY22E until leasing momentum returns. As per MREIT management, with occupiers looking to temporarily give up space and waiting for offices to open up again, near-term weakness in incremental leasing may persist for another two-three quarters.
- ▶ **FY22E NDCF guidance at risk:** MREIT announced a Q4FY21 NDCF of Rs2.85bn or Rs4.81/unit and the REIT has met H2FY21 NDCF guidance of Rs5.7bn given at the time of IPO. However, considering the recent portfolio exits, the MREIT management highlighted a risk to meeting the earlier FY22E NDCF guidance of Rs12.2bn or Rs20.6/unit. We have assumed lower asset level occupancies and have cut our FY22/23E NOI estimates by 3% each to Rs14.7/17.3bn and NDCF estimates by 2% each to Rs10.8/11.8bn, respectively. However, we are of the view that this pain is transient and expect a pick-up in incremental leasing from H2FY22 which may result in vacancy levels reducing as we head into FY23E.

Market Cap	Rs171bn/US\$2.3bn	Year to Mar	FY20	FY21P	FY22E	FY23E
Bloomberg	MINDSPCE IN	Revenue (Rs bn)	17.7	16.3	18.1	21.4
Shares Outstanding (mn)	593.0	Adjusted PAT (Rs bn)	4.7	7.6	5.9	6.8
52-week Range (Rs)	341/275	NDCF (Rs bn)	-	12.9	10.0	11.5
Free Float (%)	NA	DPU/Unit (Rs)	-	5.6	10.8	11.8
FII (%)	NA	P/E (x)	-	22.4	29.0	25.1
Daily Volume (US\$'000)	1,832	P/B (x)	-	1.0	1.1	1.1
Absolute Return 3m (%)	(7.0)	Net D/E (x)	3.4	0.2	0.3	0.4
Absolute Return 12m (%)	NA	Distribution yield (%)	-	6.5	6.3	6.9
Sensex Return 3m (%)	(4.0)	RoCE (%)	-	6.3	6.0	6.9
Sensex Return 12m (%)	61.2	RoE (%)	-	4.6	3.6	4.3

*For 6 months in FY21 from Oct 2020 to Mar 2021

Overview of Assets

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

Portfolio	Total Leasable Area (msf)	Completed Area (msf)	Current Occupancy (%)	WALE (years)	In-Place Rent (Rs/psf/month)
Mumbai Region:	12.8	9.0	78.8%	5.1	56.1
Mindspace Airoli East	6.8	4.7	91.2%	4.5	51.8
Mindspace Airoli West	5.1	3.5	66.4%	6.7	56.0
Paradigm Mindspace Malad	0.7	0.7	70.1%	3.3	93.1
The Square, BKC	0.1	0.1	-	-	-
Hyderabad:	11.6	10.4	86.0%	6.3	52.8
Mindspace Madhapur	10.6	10.0	86.6%	6.4	53.8
Mindspace Pocharam	1.0	0.4	71.1%	1.8	21.3
Pune:	5.0	3.7	91.3%	7.3	63.7
Commerzone Yerwada	1.7	1.7	97.4%	5.1	59.2
Gera Commerzone Kharadi	2.6	1.3	93.1%	11.0	71.0
The Square, Nagar Road	0.7	0.7	73.4%	5.5	61.3
Chennai:	0.8	0.8	5.3%	8.3	64.0
Commerzone Porur	0.8	0.8	5.3%	8.3	64.0
Facility Management Division	-	-	-	-	-
Total	30.2	23.9	81.8%	6.0	55.9

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

Table 2: FY21 Asset Wise Performance*(Rs mn, year ending Mar 31)*

Consolidated	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21
Asset Wise Revenues:					
Mindspace Airoli (E)	900	887	908	895	3,590
Mindspace Airoli (W)	508	484	506	529	2,027
Mindspace Malad	194	203	192	185	774
Mumbai Total	1,602	1,574	1,606	1,609	6,391
Gera Commerzone Kharadi	136	252	287	326	1,010
The Square Nagar Road	187	177	144	116	624
Commerzone Yerwada	368	379	391	398	1,535
Pune Total	691	808	822	840	3,169
Mindspace Madhapur	1,525	1,599	1,691	1,776	6,591
Mindspace Pocharam	27	29	24	25	105
Hyderabad Total	1,552	1,628	1,715	1,801	6,696
Others	-	-	20	16	36
Total Revenues	3,845	4,010	4,163	4,266	16,292
Asset Wise NOI:					
Mindspace Airoli (E)	717	703	697	707	2,823
Mindspace Airoli (W)	420	374	423	407	1,623
Mindspace Malad	169	185	174	161	690
Mumbai Total	1,306	1,262	1,294	1,275	5,136
Gera Commerzone Kharadi	103	225	258	258	846
The Square Nagar Road	156	152	118	86	512
Commerzone Yerwada	296	315	323	325	1,259
Pune Total	555	692	699	669	2,617
Mindspace Madhapur	1,339	1,405	1,514	1,569	5,827
Mindspace Pocharam	23	24	22	16	85
Hyderabad Total	1,362	1,429	1,536	1,585	5,912
Others	-5	-17	49	50	77
Total Net Operating Income (NOI)	3,218	3,366	3,578	3,579	13,742

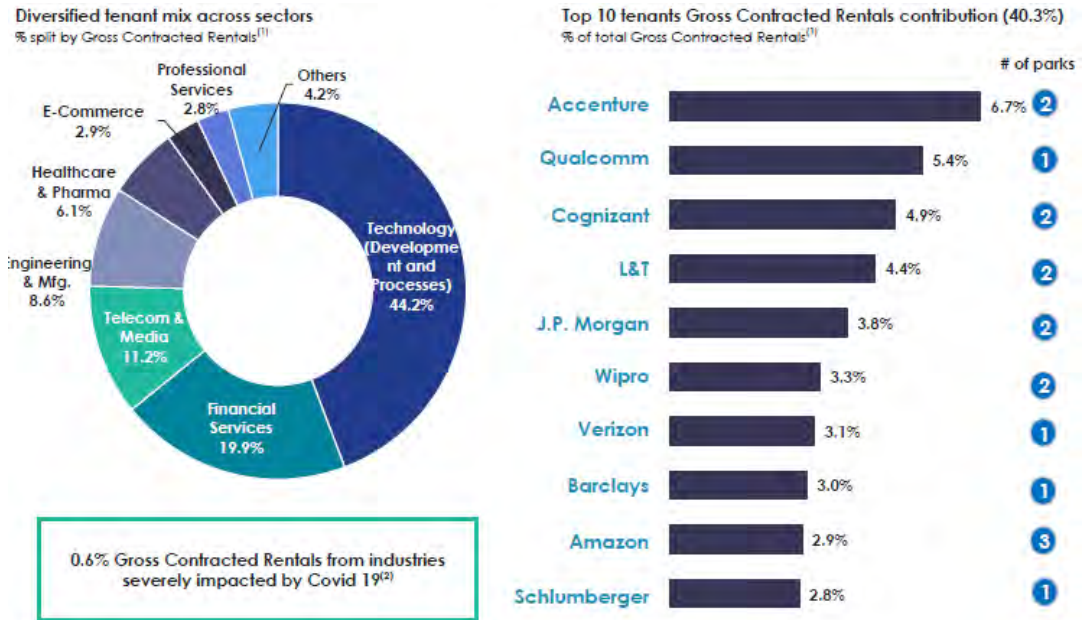
Source: Company, I-Sec research

Table 3: H2FY21 NDCF Buildup*(Rs mn, year ending Mar 31)*

Particulars	Rs mn
Revenue from Operations	8,504
Property Taxes & Insurance	(297)
Other Direct Operating Expenses	(1,049)
Net Operating Income (NOI)	7,157
Property Management Fees	(214)
Net Other Expenses	(284)
EBITDA	6,659
Cash Taxes (Net of Refunds)	(345)
Working Capital changes and other changes	(684)
Cashflow from Operations	5,630
Capex including capitalized Interest	(2,599)
Net Debt (repayment) / drawdown	3,827
Finance Costs paid for the period (excluding interest to REIT)	(859)
Proceeds to shareholders other than Mindspace REIT	(418)
NDCF (SPV Level)	5,581
Net Distributions from SPV to REIT	5,799
Other Inflows / (Outflows) at REIT Level	(93)
NDCF (REIT Level)	5,706
Distributions	5,687
Dividend	5,153
Interest	534

Source: Company, I-Sec research

Chart 1: MREIT Sectoral and Tenant Wise Breakup



Source: Company, I-Sec research

Chart 2: MREIT REIT Lease Expiry Profile

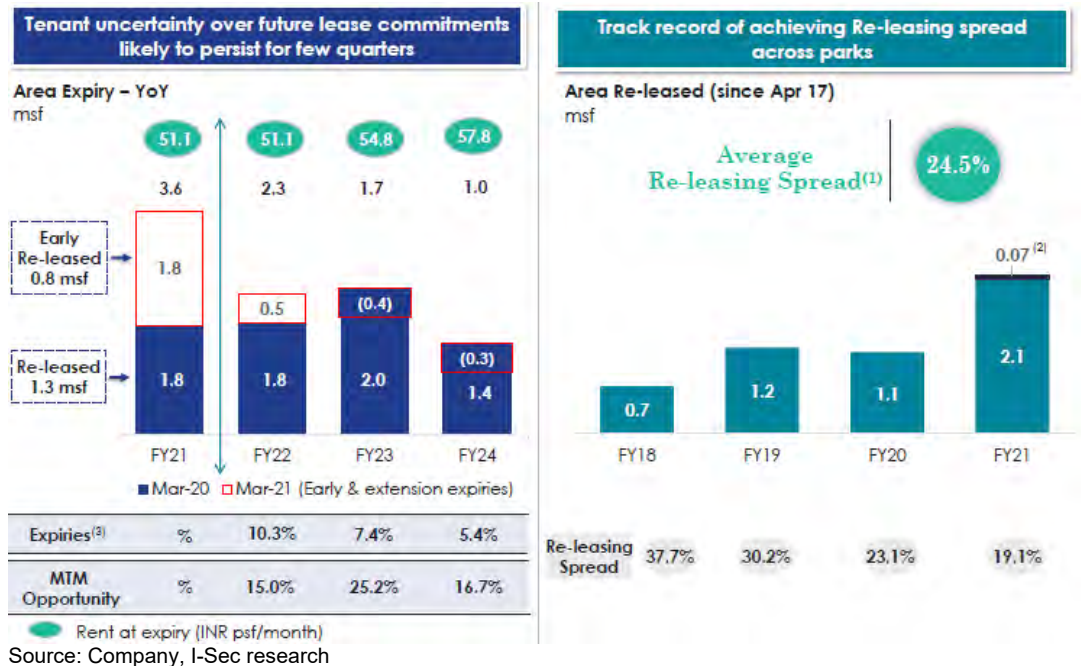


Chart 3: MREIT REIT SPV Wise Breakup of Lease Expiry Profile

Asset	FY22			FY23			FY24		
	Area % of Gross Expiring Contracte (msf)	Rent at Expiry (INR psf)	Area % of Gross Expiring Contracte (msf)	Rent at Expiry (INR psf)	Area % of Gross Expiring Contracte (msf)	Rent at Expiry (INR psf)			
Mindspace Airoli East	0.91	20.2%	50.6	0.35	7.0%	51.8	0.23	5.3%	52.0
Mindspace Airoli West	0.18	8.2%	57.5	0.22	8.7%	51.6	0.12	5.1%	54.5
Mindspace Malad	0.01	0.7%	73.9	0.10	19.5%	92.2	0.09	17.6%	104.6
The Square BKC	-	-	-	-	-	-	-	-	-
Mumbai Region	1.10	14.1%	51.9	0.67	9.0%	57.9	0.44	6.7%	63.1
Gera Commerzone Kharadi	-	-	-	-	-	-	-	-	-
The Square Nagar Road	-	-	-	-	-	-	-	-	-
Commerzone Yerwada	0.13	7.5%	59.8	0.24	9.8%	51.6	0.13	11.0%	78.2
Pune	0.13	3.7%	59.8	0.24	4.8%	51.6	0.13	5.4%	78.2
Mindspace Madhapur	0.90	9.9%	53.2	0.75	7.4%	53.0	0.40	4.0%	52.2
Mindspace Pocharam	0.13	52.3%	22.4	-	-	-	0.08	35.2%	25.7
Hyderabad	1.04	10.4%	49.2	0.75	7.4%	53.0	0.48	4.4%	47.7
Commerzone Porur	-	-	-	-	-	-	-	-	-
Chennai	-	-	-	-	-	-	-	-	-
Portfolio Total	2.27	10.3%	51.1	1.66	7.4%	54.8	1.04	5.4%	57.8

Source: Company, I-Sec research

Chart 4: MREIT Debt Maturity Schedule as on 31 March 2021

Description (INR Mn)	Fixed/Free Float	Total Facility	Undrawn Facility	Principal O/S	Interest Rate (p.a.p.m.)	Wgt. Avg. Maturity (Years)	Principal Repayment						
							FY22	FY23	FY24	FY25	FY26	FY27 & Beyond	Total
At REIT Level													
MLD (Tranche 1)	Fixed	5,000	-	5,000	6.60%	1.1	-	5,000	-	-	-	-	5,000
NCD (Tranche 1)	Fixed	2,000	-	2,000	6.42%	2.7	-	-	2,000	-	-	-	2,000
MLD (Tranche 2)	Fixed	3,750	-	3,750	6.46%	3.1	-	-	-	3,750	-	-	3,750
NCD (Tranche 2)	Fixed	750	-	750	6.64%	3.1	-	-	-	750	-	-	750
At SPV Level													
TL - MBPPL	Free Float	14,993	-	13,224	7.36%	9.3	1,514	1,231	1,432	1,627	1,868	5,552	13,224
TL - Sundew	Free Float	10,814	-	4,804	7.19%	7.9	421	370	427	500	600	2,487	4,804
TL - KRC Infra	Free Float	5,550	1,363	4,172	7.20%	8.9	332	301	368	476	566	2,127	4,172
LAP - Horizonview	Free Float	1,000	500	500	7.20%	2.8	-	-	-	500	-	-	500
TL - Gigaplex	Free Float	1,000	113	887	7.25%	2.9	119	79	689	-	-	-	887
OD / LOC	Free Float	7,028	4,473	2,555	7.79%	6.1	-	-	189	-	-	2,367	2,555
Total		51,885	6,448	37,642	7.09%	6.4	2,387	6,981	5,604	7,103	3,034	12,533	37,642
Repayment (%)							6.3%	18.5%	14.9%	18.9%	8.1%	33.3%	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 FY22E
- 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% assuming 0.25x 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 ADD rating

A dampener in Q4FY21 was overall portfolio occupancy falling by 350bps QoQ to 81.8% from 85.3% with further early exits of 0.2msf in Q4FY21. For FY21 overall, MREIT has seen 1.8msf of early exits of which 0.8msf has been re-leased while the scheduled expiries of 1.8msf have seen 1.3msf being re-leased which has led to overall portfolio vacancy increasing by 1.5msf in FY21. With another 2.3msf of expiries in FY22E including 0.5msf of early expiries, portfolio vacancy levels are at risk of increasing further in FY22E until leasing momentum returns. As per MREIT management, with occupiers looking to temporarily give up space and waiting for offices to open up again, near-term weakness in incremental leasing may persist for another two-three quarters. At the same time, the company remains optimistic of a pickup in leasing from H2FY22 once international travel opens up and people return to offices.

MREIT announced a Q4FY21 NDCF of Rs2.85bn or Rs4.81/unit and the REIT has met H2FY21 NDCF guidance of Rs5.7bn given at the time of IPO. However, considering the recent portfolio exits, the MREIT management highlighted a risk to meeting the FY22E NDCF guidance of Rs12.2bn or Rs20.6/unit. **We have assumed lower asset level occupancies and have cut our FY22/23E NOI estimates by 3% each to Rs14.7/17.3bn and NDCF estimates by 2% each to Rs10.8/11.8bn, respectively. However, we are of the view that this pain is transient and expect a pick-up in incremental leasing from H2FY22 which may result in vacancy levels reducing as we head into FY23E.**

We retain our ADD rating on MREIT with a revised Mar'22 DCF based target price of Rs318/unit (earlier Rs342). At CMP of Rs289, we estimate NDCF yield of 6.3% in FY22E and 6.9% in FY23E 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: Revised estimates of Mindspace REIT

Mindspace REIT Cash Flows	FY21A	FY22E	FY23E
Revenue from Operations	16,293	18,132	21,371
Net Operating Income (NOI)	13,741	14,660	17,297
EBITDA	NA	13,342	15,693
NDCF at SPV level*	5,581	10,974	12,234
NDCF at REIT level*	5,706	10,813	11,847
NDCF Distribution Payout (%)	100%	100%	100%
NDCF Distribution by REIT*	5,687	10,813	11,847
Distribution per Unit*	9.59	18.23	19.98
Distribution Yield (%)*	6.6	6.3	6.9

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

Table 5: Previous estimates of Mindspace REIT

Mindspace REIT Cash Flows	FY21E	FY22E	FY23E
Revenue from Operations	16,342	18,694	22,042
Net Operating Income (NOI)	12,690	15,106	17,837
EBITDA	12,250	13,746	16,181
NDCF at SPV level*	5,629	11,132	12,430
NDCF at REIT level*	5,579	11,031	12,093
NDCF Distribution Payout (%)	100%	100%	100%
NDCF Distribution by REIT*	5,579	11,031	12,093
Distribution per Unit*	9.41	18.60	20.39
Distribution Yield (%)*	6.5	6.4	7.1

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

Table 6: Table: Valuation of Mindspace REIT

Enterprise Value	247,304
Less: FY22E REIT level net debt	52,460
Less: Deposits	6,000
Equity Value	188,843
Equity Value per Unit	318

Source: Isec research estimates

Table 7: Sensitivity of Target Price to Cap Rate and Cost of Equity

NAV	318	Cost of Equity (%)				
		10%	11%	12%	13%	14%
Cap Rate (%)	6%	461	432	405	380	356
	7%	405	379	356	333	312
	8%	363	340	318	298	279
	9%	330	309	290	271	254
	10%	304	285	266	249	233
	11%	283	265	248	232	216

Source: I-Sec research estimates

Table 8: Sensitivity of Target Price to Cap Rate and Rental Growth

NAV	318	Rental Growth Rate – FY23E onwards (%)				
		3%	4%	5%	6%	7%
Cap Rate (%)	6%	387	396	405	415	425
	7%	339	347	356	364	373
	8%	304	311	318	326	334
	9%	276	283	290	297	304
	10%	254	260	266	273	280
	11%	236	242	248	254	260

Source: I-Sec research estimates

Financial summary (Consolidated)

Table 9: Profit and Loss statement

(Rs mn, year ending Mar 31)

Year ending March	FY20	FY21P	FY22E	FY23E
Revenue from operations	17,660	16,342	18,132	21,371
Operating expenses	5,403	3,652	3,472	4,074
Net Operating Income (NOI)	12,257	12,690	14,660	17,297
NOI margin (%)	69.4%	77.7%	80.9%	80.9%
Other expenses/REIT expenses	1,141	439	1,319	1,603
EBITDA	11,116	12,250	13,342	15,693
% margins	62.9%	75.0%	73.6%	73.4%
Depreciation & Amortisation	1,146	1,139	1,396	1,556
Interest expenses	5,114	3,614	5,139	6,306
Other Income	2,602	2,260	989	1,000
Exceptional items	60	-	-	-
PBT	7,518	9,756	7,795	8,831
Less: Taxes	2,379	1,687	1,480	1,569
PAT before Minority/Associate	5,139	8,069	6,315	7,262
Minority Interest	392	422	405	428
Net Income (Adjusted)	4,747	7,647	5,910	6,834

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending Mar 31)

As at March	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	30,906	2,799	1,874	3,562
of which cash & cash eqv.	2,561	1,377	430	2,095
Total Current Liabilities & Provisions	12,500	12,542	13,086	13,132
Net Current Assets	18,406	(9,743)	(11,212)	(9,571)
Other non-current assets/Goodwill*	5,344	1,36,755	1,36,705	1,36,655
Investments	18	28	38	48
Net Fixed Assets	58,164	64,941	68,091	69,110
Capital WIP	17,746	19,725	24,271	26,846
Total Assets	99,678	2,11,706	2,17,892	2,23,087
Liabilities				
Borrowings	74,069	42,144	52,891	62,722
Net Worth	21,252	1,64,782	1,59,817	1,54,752
Minority Interest	1,663	2,085	2,491	2,919
Deferred Taxes	2,694	2,694	2,694	2,694
Total Liabilities	99,678	2,11,706	2,17,892	2,23,087

Source: Company data, I-Sec research, *Assumed non-cash adjustment for revaluation of assets on transfer to REIT

Table 11: Cashflow statement*(Rs mn, year ending Mar 31)*

Year ending March	FY20	FY21P	FY22E	FY23E
PBT	7,518	9,756	7,795	8,831
Interest income and fair value change in financial assets	(2,498)	(2,260)	(989)	(1,000)
Finance costs	5,114	3,614	5,139	6,306
Depreciation and amortisation expense	1,146	1,139	1,396	1,556
Others	(68)	1	-	-
Operating cash flows before working capital changes	11,212	12,251	13,342	15,693
Changes in Working Capital	(227)	27,015	572	73
Cash generated from operations	10,985	39,267	13,914	15,767
Income taxes paid, net	(1,719)	(1,687)	(1,480)	(1,569)
Operating Cashflow	9,266	37,579	12,434	14,198
Capital Commitments	(13,842)	(9,895)	(9,092)	(5,149)
Free Cashflow	(4,576)	27,684	3,342	9,049
Investments	129	(10)	(10)	(10)
Others	162	2,260	989	1,000
Cashflow from Investing Activities	(13,551)	(7,646)	(8,113)	(4,160)
Issue of Share Capital/(Distribution)	(597)	4,421	(10,875)	(11,899)
Inc (Dec) in Borrowings	11,654	(31,925)	10,747	9,832
Finance costs	(6,297)	(3,614)	(5,139)	(6,306)
Others	(17)	-	-	-
Cashflow from Financing activities	4,743	(31,118)	(5,267)	(8,373)
Chg. in Cash & Bank balances	458	(1,184)	(947)	1,665

Source: Company data, I-Sec research

Table 12: Key ratios*(Year ending Mar 31)*

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
Earnings per Unit		12.9	10.0	11.5
Distribution per unit (DPU)		9.4	18.2	20.0
Book Value per Unit (BV)		277.9	269.5	261.0
Growth (%)				
Net Sales	23.4	(7.5)	11.0	17.9
Net Operating Income		3.5	15.5	18.0
EBITDA	9.7	10.2	8.9	17.6
PAT	(0.9)	61.1	(22.7)	15.6
Valuation Ratios (x)				
P/E		22.4	29.0	25.1
P/BV		1.0	1.1	1.1
Distribution Yield		6.5	6.3	6.9
Operating Ratios				
Debt/EBITDA (x)	6.7	3.4	4.0	4.0
Net D/E	3.4	0.2	0.3	0.4
Profitability/Return Ratios (%)				
RoE		4.6	3.6	4.3
RoCE		6.3	6.0	6.9
EBITDA Margins	62.9	75.0	73.6	73.4
Net Income Margins	26.9	46.8	32.6	32.0

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

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