



The  
**MESSENGER**

by



**MBP (REIT)**



**Astute Feed  
Team**

**Mindspace Business Parks (REIT)**

**Issue Opens  
July 27, 2020**

**Issue Closes  
July 29, 2020**

# Mindspace Business Parks REIT

*Whenever a new investment instrument is introduced to investors, it is usually analysed with a little bit scepticism. Despite having a greater acceptance globally, Real Estate Investment Trust was seen with incredulity in India, when Embassy Office Park had hit the primary market floor. However, with first REIT witnessing a good demand and providing better than expected returns, Investors are likely to provide a warmer welcome to other REIT offerings. As Mindspace Business Parks REIT is going on the floor, let's discuss in detail how the offer is placed for investors.*

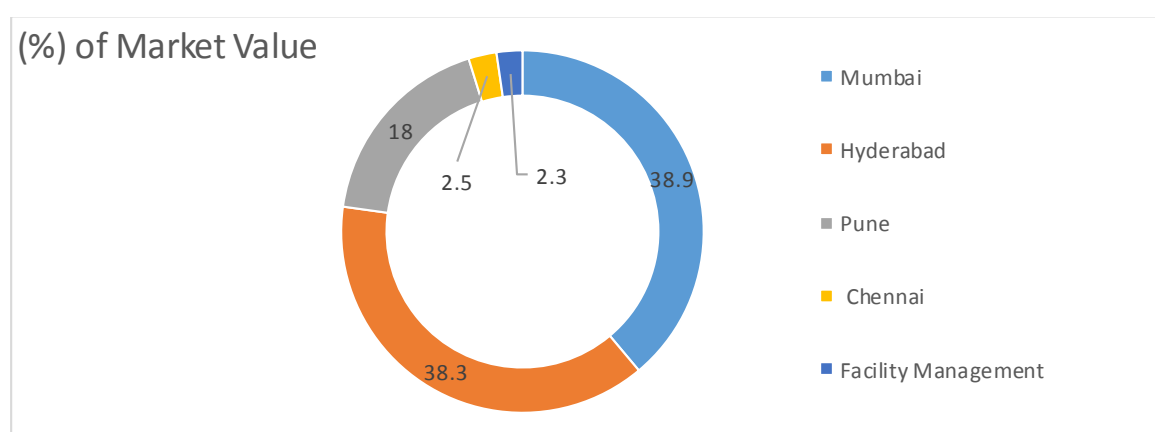
## Introduction

Currently the globe is facing challenging times with Covid-19 pandemic keeping almost everything to stand still. Be it a developed nation or the third world economy – almost every economy has been affected. Even India is no exception. No wonder it was followed by respective governments announcing stimulus packages as per own capabilities. However most of those stimulus was reactive in nature and a lot of impact was already visible on different asset classes. In India realty as an asset class was already reeling under pressure and Covid - 19 issue only added to the woes. It was clearly visible from the fact that Realty volumes had witnessed stagnancy and even the realisation had declined. Un-sold inventory in key markets was continuously higher – despite the supply side being managed accordingly. However amid such a scenario one asset class related to Realty has provided some solace. Just to put the things in perspective – India's first REIT issue not only generated positive returns (while overall realty related indices providing negative returns), but also managed to provide confidence to investor fraternity. Let's see if Mindspace Business Parks REIT issue can garner good response – amid the concerns of work from home being considered a new normal. We at Astute Feed provide a detailed analysis as we spoke to the management at virtual Analyst meet.

Company / Index	April 1, 2019	CMP (July 21, 2020)	% Change
	Opening	Closing	
Nifty Realty (Index)	267.2	203	-24.03
Nifty (Index)	11669	11150	-4.45
Embassy REIT	300	347	15.67
DLF	195.55	146	-25.34
Shobha	512.3	235	-54.13
Godrej Properties	814.7	878	7.77
Oberoi Realty	532	381	-28.38

## Understanding the Business

MindSpace Business Parks (MBP) owns a quality office portfolio located in four key office markets of India. Its Portfolio has total leasable area of 29.5 mn. Sq. ft. and is one of the largest Grade-A office portfolios in India as reported by Cushman & Wakefield Report). Company's Portfolio comprises of 23 mn. Sq. ft. of completed area, 2.8 mn. Sq. ft. of under construction area and 3.6 mn. Sq. ft. of future development area, as of March 31, 2020. As regards the assets owned, MBP Portfolio has five integrated business parks with superior infrastructure and amenities (such as restaurants, crèches and outdoor sports arenas) and five quality independent offices.



Particular	Area (Mn. Sq. Ft)
Completed	23
Under Development	2.85
Future Development	3.65
Total	29.5

Area	Leasable Area (mn. Sq. ft.)
Mumbai	12.1
Hyderabad	11.6
Pune	5
Chennai	0.8
Total	29.5

The Sponsors of MindSpace REIT are Anbee Constructions LLP (ACL) and Cape Trading LLP (CTL). Both the Sponsors are LLPs incorporated under the LLP Act, at Mumbai, Maharashtra, India. Both ACL and CTL form part of the K Raheja group (Raheja), which is one of India's leading real estate development and retail business groups, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, malls and residential segments. K Raheja group has acquired and developed properties across various businesses of approximately 28.5 mn. Sq. ft. of commercial real estate, as of March 31, 2020.

## **Issue Details**

MindSpace REITs is coming out with its maiden book building process IPO having a combo of a fresh issue worth Rs. 1000 crore and offer for sale (OFS) worth Rs. 3500 crore making a total issue size of Rs. 4500 crore. It has fixed the price band of Rs. 274 - 275. It opens for subscription on July 27, 2020 and will close on July 29, 2020.

Minimum application is to be made for 200 units and in multiples of 200 units thereafter. Post allotment units will be listed on BSE and NSE. The net proceeds from the fresh issue will be used for - Partial or full pre-payment or scheduled repayment of certain debt facilities of the asset SPVs availed from banks, financial institutions including any accrued interest. Around Rs 900 crore would be utilised here.

Apart From this, MBP has already received Rs. 1125 crore worth application from strategic investors ahead of IPO in the month of June 2020 from the overall issue size. Thus the current issue will be for Rs. 3375 cr. The company has reserved 75 percent for institutional investors and 25 percent for non-institutional investors (i.e. retail investors). The issue constitutes 20.66 percent of the post issue units' base of the company. Post issue, MindSpace REITs will have 593.81 crore units that indicate market cap of Rs. 16308 cr. based on the upper price band of the units.

## **Operational Analysis**

Earlier we spoke about how the first REIT managed to garner returns despite the gloom in realty space. Similarly when physical realty investment is witnessing slow down – REIT seems to be a better option to earn decent returns in turbulent times. Secondly factor is, while Embassy Office Park had concentration in Bengaluru – MBP has good diversification in Terms of leasable area in four cities. In addition to this MBP is also looking for inorganic growth. Already there are properties under consideration to the tune of 8.6 mn. Sq. ft. in Chennai, Navi Mumbai and Hyderabad. One must understand that MBP is reducing its debt from the issue proceeds and hence it can further leverage its balance sheet going ahead. Here the management has stated that loan to market value of MBP is just at 15 percent. This is much lower as compared to the industry standards as one can even go to the tune of 49 percent of market value. When asked about comfortable levels where MBP can go up to on loan to market value, management stated that up to 30 percent is comfortable level. This can easily give a good access to the capital required for inorganic growth. Apart from this the dividend received would not be taxable at the hands of investor and hence the yield arrives at 7.5 percent.

As regards the other growth parameter, a lot of upwards catch up game remains for MBP on rent/sq. ft. part. Just to put the figures in perspective currently average rent per sq. ft. stands at R 52 and with few confirm renewals would happen at higher rate. With industry standard at more than Rs 60 per sq. ft., one can expect a good up-move for MBP on similar parameter. Apart from that the company management has suggested that in few cases the rent renewal (increment) would happen on yearly basis as compared to three years earlier. It stands as a positive factor. As for other parameters, following table gives a clear idea.

Mindspace Business Parks		Data (Rs Crore)	Embassy Office Parks	
FY19	FY20		FY20	FY19
1679.7	2026.2	Revenues	2193.73	1877
248.1	260.2	Other Income	50.22	154
1261.4	1371.8	EBITDA	1587.88	1513.66
75.10	67.70	EBITDA Margins (%)	72.38	80.64
446.2	511.4	Interest	380.35	705.98
595.6	751.8	PBT	678.6	451.36
515.4	513.9	PAT	648.6	250.18
515.4	513.9	Reported PAT	648.6	250.18
30.68	25.36	PAT Margins (%)	29.57	13.33

Mindspace Business Parks		Embassy Office Parks	
Mumbai, Hyderabad, Pune and Chennai		Bengaluru, Mumbai, Pune and Noida	
Completed	23 mn sq. ft.	Completed	26.2 mn sq. ft.
Development	2.8 mn sq. ft.	Development	7.1 mn sq. ft.
Future Development	3.6 mn sq. ft.	Future Development	NA
WALE	5.8 Years	WALE	7 Years
Occupancy	92.0%	Occupancy	92.8%
Average Rent	Rs 50/52 per sq. ft.	Average Rent	Rs 68 per sq. ft.

### Covid -19 Impact – How it affected?

Everyone would surely have a query regarding impact of Covid -19 on the business model of the company. With many companies trying for or planning for ‘work from Home’ – this is obvious. Rather with all of company’s business and operations are located in India, the COVID-19 pandemic affects its operations due to majority of its tenants limiting their operating staff and hours while others opting to work from home, interruption in construction activities at its under-construction sites due to the government directives to contain the spread of COVID-19, negative impact on the business and financial condition of some of its tenants and their ability to pay rent.

While the company did not face significant disruptions in its operations from COVID-19 during the financial year ended March 31, 2020 and collected 99.4 percent of the gross contracted rentals (GCR) for the month of March 2020, its properties were not fully occupied by the tenants for the months of April and May 2020. However, they maintained and managed their properties throughout the lockdown to ensure business continuity and safety of its tenants. As of May 31, 2020, committed occupancy of its portfolio was 92.4 percent and In-place rent across its portfolio was ₹ 52.5 per sq. ft. The company derive 99.4 percent of its GCR from leasing of office premises, and they have not seen a significant decline in the rent receipts during these 2 months (They have collected 97.8 percent and 95.2 percent of its GCR for the months of April and May 2020, respectively). Further, they continue to enter into commitments with potential tenants for securing pre-leasing as well as lease-up of vacant space in its assets. As for growth, since April 1, 2020, they have leased 0.7 mn. sq. ft. of area (of which 40.5 percent was leased to its existing tenants and 59.5 percent was leased to new tenants) including pre-committed 42,567 sf of area in its under-construction asset, Commerzone. Also, they have not availed any deferments or moratoriums with respect to any of its financial commitments. However, its effect on the business and operations in the medium to long term will depend on future developments, including the scope, severity and duration of the pandemic, the actions to contain Covid -19, and the direct and indirect economics of the pandemic and containment measures, among others. We are not expecting a major impact on the operational performance of the company.

### Financial Performance and Valuation

On financial front, MBP has been a consistent performer. For FY20 it posted a total income of Rs 2026.2 crore and an EBITDA of Rs 1377.7 crore as compared to Rs 1679.7 crore and Rs 1273.1 crore respectively in FY19. PAT for FY20 Stood at Rs 513.80 crore as against Rs 515.40 crore in FY19. As regards the Net Asset Value per unit as of March 31, 2020 – it stands at Rs 319.50. With the issue offered at 86 percent of NAV even at Cap price, we feel it would be a good opportunity to have exposure to the realty sector. Especially with a post-tax yield of ~7.50 percent. Those having good liquidity condition (even in current scenario of pandemic) can go for the issue.

IPO DETAILS	
PRICE BAND (Rs.)	274-275
OPEN Date	27-Jul-20
CLOSE Date	29-Jul-20
A) NEW ISSUE (Rs Crore)	1,000
B) OFFER FOR SALE (Rs Crore)	3,500
ISSUE SIZE (Rs Crore)	4,500
Minimum Investment (Rs)	55,000
BID LOT	200.0

<b>Financial Performance</b>			
<b>Particulars (Rs. Crore)</b>	<b>FY20</b>	<b>FY19</b>	<b>FY18</b>
<b>Revenues</b>	<b>1766</b>	<b>1431.6</b>	<b>1263.1</b>
Other Income	260.2	248.1	239.1
<b>Total Income</b>	<b>2026.2</b>	<b>1679.7</b>	<b>1502.2</b>
<i>Growth (%)</i>	20.6	11.8	
<b>Total Expenses</b>	<b>1280.5</b>	<b>1084.1</b>	<b>1151.5</b>
PBT	745.7	595.6	350.7
Associate Profit	6	11.7	1.1
<b>Total PBT</b>	<b>751.70</b>	<b>607.3</b>	<b>351.8</b>
<i>Growth (%)</i>	23.8	72.6	
Tax	237.9	91.9	190.8
<b>PAT</b>	<b>513.80</b>	<b>515.40</b>	<b>161.0</b>
Finance Cost	511.4	446.2	468.8
Depreciation	114.6	219.6	205.4
<b>Total</b>	<b>626.0</b>	<b>665.8</b>	<b>674.2</b>
<b>EBITDA</b>	<b>1377.7</b>	<b>1273.1</b>	<b>1026.0</b>
<i>Growth (%)</i>	8.2	24.1	
<i>Margins (%)</i>	68.0	75.8	68.3

#### **BOOK RUNNING LEAD MANAGERS**

Morgan Stanley India  
Axis Capital  
DSP Merrill Lynch  
Citi Global Markets India  
Nomura Financial Advisory and Securities

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CLSA India Pvt Ltd  
UBS Securities India Pvt Ltd  
Ambit Capital Private Ltd  
IDFC Securities

<b>Promoters</b>	Ravi C Raheja	Neel C Raheja
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