

Mindspace REIT



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Issue Opens On
Monday, 27th July 2020

Issue Closes On
Wednesday, 29th July 2020

Price Band (INR)
274 – 275

Issue Size (INR Cr.)
4,500

Rating
Not Rated

Mindspace REIT is the owner of a high quality office portfolio in India that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. It would be the second public issue of REIT after Embassy Office Parks REIT. Mindspace portfolio consists of five integrated business parks with superior infrastructure and amenities and five quality independent offices aggregating to 29.5 msf of total leasable area. It is one of the largest Grade-A office portfolios in India located in four key office markets at Mumbai Region, Hyderabad, Pune and Chennai. These markets have exhibited strong dynamics with world leading absorption and constrained forecast supply resulting in high rent growth and low vacancy on average. The REIT is projecting a distribution yield going forward, largely through the tax efficient mode of dividends. Even as the ongoing COVID-19 poses risks to the near-term projections, we believe that over time, M-REIT would offer a steady double-digit total return structure, on a steady & growing income stream.

OFFER STRUCTURE

Particulars	IPO Details
No. of Units	12.27 Cr.
Price band (INR)	274 – 275
Post issue MCAP (INR Cr.)	3,031 – 3,374

Source: IPO Prospectus, KRChoksey Research

Indicative Timetable	
Offer Closing Date	29 th July 2020
Finalization of Basis of Allotment with Stock Exchange	6 th August 2020
Initiation of Refunds	7 th August 2020
Credit of Equity Shares to Demat accounts	7 th August 2020
Commencement of Trading of Eq.shares on NSE	12 th August 2020

Source: IPO Prospectus, KRChoksey Research

Issue break-up	INR cr.
Fresh Issue:	INR 1,000cr
Offer for sale:	INR 3,500cr
Total Issue Size:	INR 4,500cr

Source: IPO Prospectus, KRChoksey Research

Objects of the issue
<ul style="list-style-type: none"> Amount raised from Fresh issue of shares in order to meet Partial or full repayment or pre-payment of certain debt facilities of the Asset SPVs availed from banks/financial institutions;
<ul style="list-style-type: none"> Payment of consideration for acquisition of Non-Cumulative Redeemable Preference Shares (NCRPS) of Mindspace Business Parks Private Limited (MBPPL); and for General purposes.

Source: IPO Prospectus, KRChoksey Research

Mindspace REIT

Competitive strength & Business strategy

Portfolio with Significant Scale:

Mindspace REIT's Portfolio comprises five integrated business parks and five quality independent offices, totaling 295 lsf of Total Leasable Area, comprising 230 lsf of Completed Area (of which 33 lakh sq ft (lsf) was achieved in fiscal year 2020), 28 lakh sq ft of Under Construction Area and 36 lsf of Future Development Area, as of March 31, 2020. The REIT believes this has resulted in Committed Occupancy of 92.0%, Same Store Committed Occupancy (that represents Committed Occupancy for the Portfolio for areas where occupancy certificate was received on or before March 31, 2019) of 96.5%, and growth of In - Place Rent across its Portfolio to INR 51.8 psf, as of March 31, 2020.

Presence in Four Key Office Markets of India:

Mindspace REIT's Portfolio is located in four key office markets of India, namely Mumbai Region, Hyderabad, Pune and Chennai. Mindspace REIT's Portfolio Markets benefit from strong in place transportation infrastructure and have exhibited strong underlying growth fundamentals such as economic and employment growth, educated workforce and favourable demand and supply trends

Portfolio with Stable Cash Flows and Strong Growth Potential:

Mindspace REIT's portfolio is stabilized with 92% Committed Occupancy (240 bps higher than the Portfolio Markets) (Source: C&W Report), 96.5% Same Store Committed Occupancy and a WALE of 5.8 years, as of March 31, 2020. Over the last three fiscal years, it was able to (re)lease 7.6 msf – of which 4.6 msf of new area leased and 3.0 msf of existing area re-leased at a re-leasing spread of 28.9%. In addition, over the same period, it has grown the Portfolio by approximately 4.8 msf primarily through on-campus development of the business parks.

On-Campus development of existing business parks:

Over the last five fiscal years, Mindspace REIT have constructed 6.1 msf (of which 1.9 msf was completed in fiscal year 2020) in the business parks, while maintaining Committed Occupancy of more than 92.0% at the end of each of those years. About 6% of the total market value of the portfolio is under construction/ future development.

Flexible capital structure for inorganic growth:

Post listing of Units, indebtedness at the Asset SPV level is projected to continue to be in the form of interest bearing loans and in future, when debt markets are favorable, refinancing all or part of the debt at Asset SPVs by raising debt financing at Mindspace REIT level, to help bring efficiencies in cost of financing and improve the net distributable cash flows. Total indebtedness as of March 31, 2020 was INR 73,823 mn, repayment of a portion of debt from the Net Proceeds from the Fresh Issue, could bring down the indebtedness to INR 36,140 mn. Reduced leverage will enable the company to drive growth by undertaking value-accretive future acquisitions, both through new transactions as well as acquisition of ROFO assets from the KRC group, if they seek to sell them.

Strong Industry Fundamentals:

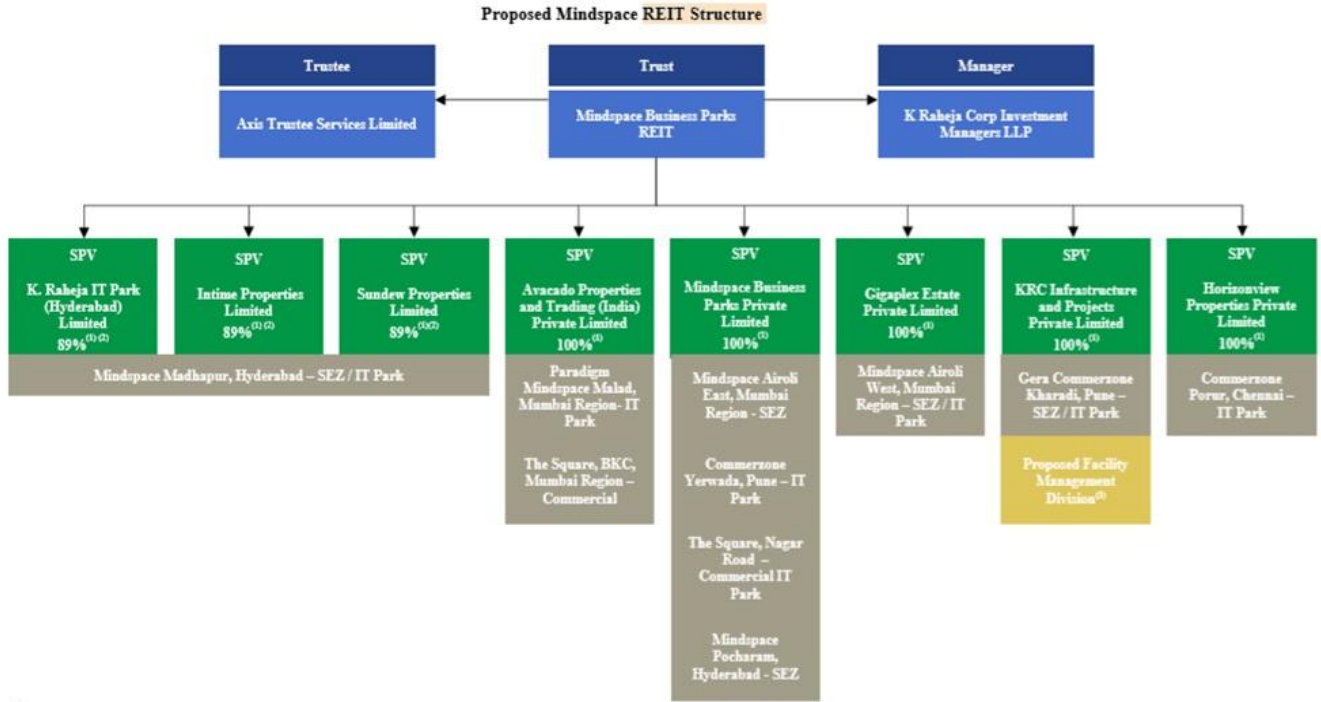
India's services sector continues to be the key driver of India's growth and represented 54.3% of India's gross value added ("GVA") during fiscal year 2019. Within the services sector, the technology industry has been the major growth driver. According to C&W Report, this growth in technology services is driven by Large English-Speaking Talent Pool, Competitive Cost Advantage: and Transition to Value Added Services.

Mindspace REIT

Company Overview

Mindspace portfolio consists of five integrated business parks with superior infrastructure and amenities and five quality independent offices aggregating to 29.5 msf of total leasable area. It is one of the largest Grade-A office portfolios in India located in four key office markets at Mumbai Region, Hyderabad, Pune and Chennai. These markets have exhibited strong market dynamics with world leading absorption and constrained forecast supply resulting in high rent growth and low vacancy on average.

Proposed Mindspace REIT Structure

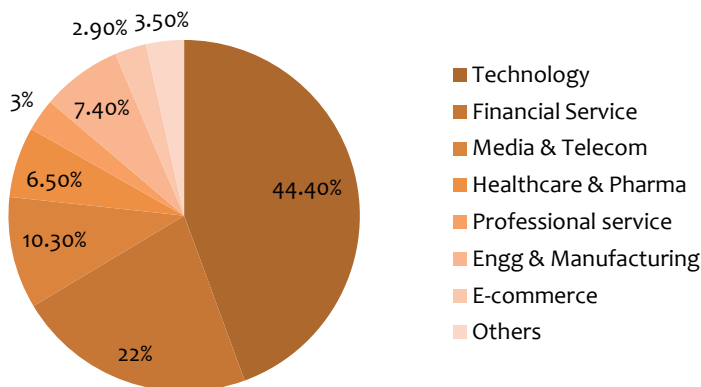


Source: IPO Prospectus, KRChoksey Research

Diversified tenant mix

M-REIT has 172 tenants, with a weighted average lease expiry (WALE) period of 5.8 years, and is well-diversified with no single tenant contributing more than 7.7% of rentals, thereby offering stability to the portfolio. Approximately 84.9% of rentals are attributable to MNCs and 39.4% to Fortune 500 companies. The tenant base comprises corporates, such as Accenture, Qualcomm, BA Continuum, JP Morgan, Amazon, Schlumberger, UBS, Capgemini, Facebook, Barclays and BNY Mellon. The sectoral mix of tenants is diversified, with increasing share of the non-technology sector. Tenants from several other sectors include financial services (22%), telecom & media (10.3%), engineering & manufacturing (7.4%), and healthcare & pharma (6.5%), among others

Portfolio across sector based on contracted rentals as of 31st March,2020



Source: Company, KRChoksey Research

Mindspace REIT

Risks Related to Business and Industry:

The COVID-19 pandemic adversely affects its business, financial condition, and performance, and it may reduce the demand for commercial real estate in future:

Mindspace REIT operates in the industry that may be negatively affected by the disruption to business caused by this global outbreak or maybe required to significantly fix their business model, which may affect their ability to pay rent and decrease the demand for properties. The COVID-19 pandemic has had, and may continue to have, impacts across local, national and global economies and financial markets. In particular, a number of governments and organizations have revised GDP growth forecasts for 2020 downward in response to the economic slowdown caused by the spread of COVID-19.

Business is dependent on the performance of the commercial real estate market in India:

The success of projects depends on the general economic growth of and demographic conditions in India. In addition, the condition of the real estate sector in India, particularly market prices for developable land and the leasing of finished offices, has and will continue to have a significant impact on the revenues and results of operations. Real estate markets are cyclical in nature, and a recession, slowdown or downturn in the real estate market as well as in specific sectors such as technology, where tenants are concentrated, increase in property taxes, changes in development regulations and zoning laws, availability of financing, rising interest rates, increasing competition, adverse changes in the financial condition of the tenants, increased operating costs, disruptions in amenities and public infrastructure and outbreaks of infectious disease such as COVID-19, among others, may lead to a decline in demand for the Portfolio, which may adversely affect its business, results of operations and financial condition.

Business are subject to compliances with various laws, and any changes in law may adversely affect the business and results of operations:

Mindspace REIT operates in the industry which is various laws and regulations. Business could be adversely affected by any change in laws, municipal plans or stricter interpretation of existing laws, or promulgation of new laws, rules and regulations applicable to the company.

Mindspace REIT

Key Financials:

Particulars (INR mn)	FY18	FY19	FY20
Net Sales	12,631	14,316	17,660
EBITDA	7,858	10,133	11,116
PAT	1,610	5,154	5,139
EBITDA Margin	62.2%	70.8%	62.9%
NPM	12.7%	36.0%	29.1%

Source: Company Research

Profit and Loss statement:

Particulars (INR mn)	FY18	FY19	FY20
Revenue from operations (Net Sales)	12,631	14,316	17,660
EBITDA	7,858	10,133	11,116
Depreciation	2,054	2,196	1,146
EBIT	5,804	7,937	9,970
Interest cost	4,688	4,462	5,114
Other income	2,391	2,481	2,602
PBT & Exceptional items	3,507	5,956	7,458
Exceptional items	11	117	60
PBT	3,518	6,073	7,518
Tax expenses	1,908	919	2,379
PAT	1,610	5,154	5,139
Minorities, Associates, etc.	127	365	392
Adj PAT	1,483	4,789	4,747

Source: Company Research

Balance sheet:

Particulars (INR mn)	FY18	FY19	FY20
EQUITY AND LIABILITIES			
Equity attributable to controlling interest of Mindspace REIT	12574	17134	21252
Non-controlling interest	999	1336	1663
Shareholders' funds	13573	18470	22915
Borrowings	54,141	57,603	67,512
Other non current liabilities	5,724	3,290	5,395
Total Current liabilities	11,300	12,074	16,402
TOTAL	84,738	91,437	1,12,224
ASSETS			
PPE	1,263	1,218	1,453
Capital work in progress	22	22	22
Investment Property	39,411	40,244	56,710
Other fixed assets	19,313	23,691	23,023
Inventory	21	33	52
Receivables	368	301	362
Cash and other bank balance	446	630	2,561
Other current assets	23,894	25,298	28,041
TOTAL	84,738	91,437	1,12,224

Source: Company Research

Mindspace REIT

Cash flow Statement:

Particulars (INR mn)	FY18	FY19	FY20
Net Cash Generated From Operations	7,590	9,388	9,266
Net Cash Flow from Investing Activities	(4,267)	(5,860)	(13,551)
Net Cash Flow from Financing Activities	(4,878)	(3,561)	(4,743)
Net Inc/Dec in cash equivalents	(1,555)	(83)	458
Opening Balance	520	(1,035)	(1,119)
Closing Balance Cash and Cash Equivalents	(1,035)	(1,119)	(661)

Source: Company Research

Ratio Analysis:

Key Ratio	FY18	FY19	FY20
EBITDA Margin (%)	62.2%	70.8%	62.9%
EBIT Margin (%)	46.0%	55.4%	56.5%
Tax rate (%)	54.2%	15.1%	31.6%
Net Profit Margin (%)	12.7%	36.0%	29.1%
RoE (%)	11.9%	27.9%	22.4%
RoCE (%)	8.6%	10.4%	11.0%
Current Ratio (x)	1.9	1.9	1.5

Source: Company Research

Mindspace REIT

Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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