

## Mindspace Business Parks REIT

Mindspace Business Parks REIT owns a quality office portfolio located in four key office markets of India. Its portfolio has total leasable area of 29.5 msf and is one of the largest Grade-A office portfolios in India. Portfolio comprises 23.0 msf of completed Area, 2.8 msf of under construction area and 3.7 msf of future development area, as of March 31, 2020.

**Positives:** (1) Promoters and company have proven track record in real estate & retail space with listed companies like Chalet Hotels and Shoppers Stop; (2) 80% of leasable area attributable to Mumbai and Hyderabad, which are the key markets for India; (3) 85% of rent comes from Global and MNC companies, which are sticky in nature; (4) Exposure only to commercial office space which is the least impacted segment in real estate due to Covid-19 outbreak; (5) Healthy collections at 97.5% of revenues for March, April & May provides comfort.

**Investment concerns:** (1) Slowdown in demand for commercial space; (2) Increase in Work From Home (WFH) can lead to higher vacancy in key market geographies, adversely impacting rental income in the near term; (3) Renegotiation of existing contracts at lower rates could impact rental income.

**Outlook & Valuation:** Current dividend yield works out to ~3.5% for Mindspace REIT (M-REIT), which is projected to increase to 7.5% in FY22E. Though uncertainties due to Covid-19 related issues pose risks to earnings in the near term, we believe that in the long run there will be a steady increase in earnings. Most of the earnings will be paid out in the form of dividends, which is tax exempt for all categories of investors. Post the IPO, there will also be a debt reduction of ~₹3,000cr for the company, which will bring down debt to equity ratio from 2.95x at the end of FY20 to below 1.0x, which is a key positive.

Given the current uncertainties due to Covid-19 the listing gains may be limited. We believe that in the long run M-REIT will offer similar or better post tax yields as compared to fixed income. Steady and growing dividend stream along with capital appreciation of underlying asset makes it an attractive investment opportunity in the long run. **We recommend 'Subscribe' to the issue from a long term investment perspective.**

### Key Financials

Y/E March (₹ Cr)	FY18	FY19	FY20
<b>Total Revenue from Operation</b>	<b>1502.2</b>	<b>1679.7</b>	<b>2026.2</b>
% chg	5.0	11.8	20.6
<b>EBIDTA</b>	<b>1024.9</b>	<b>1261.4</b>	<b>1371.8</b>
EBITDA (%)	68%	75%	68%
<b>Profit before tax</b>	<b>351.8</b>	<b>607.3</b>	<b>751.8</b>
PBT (%)	23%	36%	37%
<b>Net Profit</b>	<b>159.9</b>	<b>471.7</b>	<b>512.5</b>
% chg	-30.9	195.0	8.6

Source: Company, Angel Research

Please refer to important disclosures at the end of this report

## SUBSCRIBE

Issue Open: July 27, 2020

Issue Close: July 29, 2020

### Issue Details

Offer for Sale: ₹3500 Cr

Fresh issue: ₹1000 Cr

Issue size (amt): ₹4500 Cr

Price Band: ₹274-275

Minimum Bid Amount  
₹54800\*-55000\*\*

Lot Size: 200 units and in multiple thereafter

Post-issue implied mkt. cap: ₹18000 Cr

Promoters holding Pre-Issue: 85%

Promoters holding Post-Issue: 65%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

Institutional Investor	75% of issue
Retail	25% of issue

### Post Issue Shareholding Pattern

Promoters	65%
Others	35%

**Yash Gupta**

Research Analyst

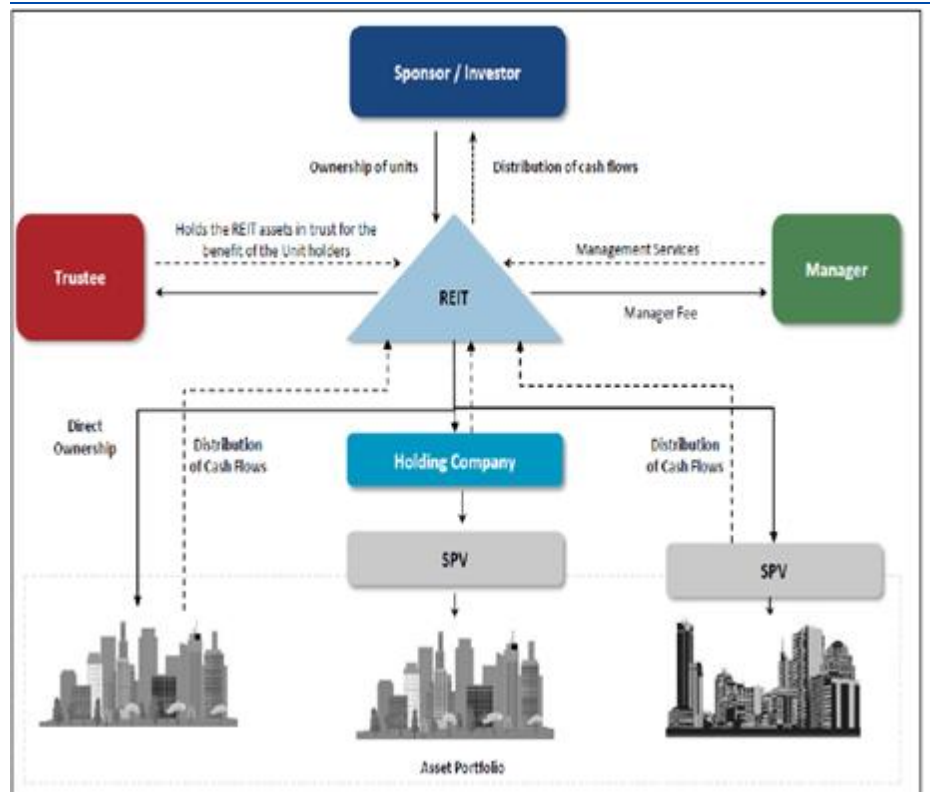
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### About REITs

Real Estate Investment Trusts (REITs) are companies that own or finance income-producing real estate in a range of property sectors. REITs provide all investors the chance to own valuable real estate, present the opportunity to access dividend-based income (Rental) and total returns (Capital Appreciation). The stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy, manage or finance property. REITs must pay out at least 90% of their net distributable cash flows. REITs must own more than 80% of the value of its assets in completed and rent generating properties.

### REITs Structure



Source: Company, Angel Research, RHP

### Mindspace REIT background

Mindspace REIT was settled on November 18, 2019 at Mumbai, Maharashtra, India as a contributory determinate irrevocable trust under the provisions of the Indian Trusts Act, 1882, pursuant to a trust deed dated November 18, 2019. Mindspace REIT was registered with SEBI on December 10, 2019, at Mumbai as a REIT pursuant to the REIT Regulations having registration number IN/REIT/19-20/0003. Mindspace REIT has been settled by the Sponsors for an initial sum of ₹10,000. CTL and ACL are the sponsors of Mindspace REIT. K Raheja Corp (KRC) Investment Managers LLP (held by Mr. Ravi C. Raheja and Mr. Neel C. Raheja, as the partners) has been appointed as the Manager for Mindspace REIT, and Axis Trustee Services Limited has been appointed as the Trustee to Mindspace REIT.

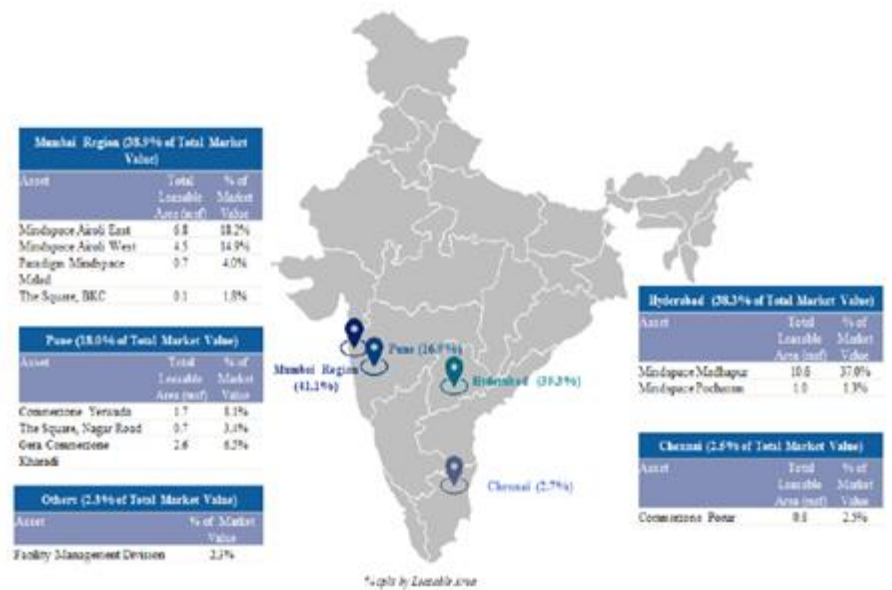
### Key Office Markets

Mindspace owns a quality office portfolio located in 4 key office markets of India. The Portfolio has total leasable area of 29.5 msf and is one of the largest Grade-A office portfolios in India. Its portfolio comprises 23.0 msf of completed area, 2.8 msf of under construction area and 3.6 msf of future development area, as of March 31, 2020. Further, 4 key office markets are Mumbai, Pune, Hyderabad and Chennai. Notably, Mindspace has portfolio of 5 integrated business parks and 5 independent offices.

### Key Highlights of Mindspace Business Parks REIT

- Mumbai Portfolio spread across 4 properties with completed area of 9 msf, under construction area of 1 msf and further development area of 2.1 msf. Hyderabad portfolio spread across 2 properties with completed area of 10.3 msf, under construction area of .3 mfs and further development area of .4 msf.
- Mumbai portfolio has total area of 12.1 msf (41%), Hyderabad portfolio has total area of 11.5 msf (39%), Pune portfolio has total area of 5 msf (17%) and Chennai portfolio has total area of .8 msf (3%).
- 85% of gross rental comes from foreign MNC companies like Accenture, Qualcomm, Barclays, JP Morgan, Amazon, UBS, etc.
- Portfolio assets well diversified across 172 tenants and no tenant dependency of more than 7.7% with committed occupancy of 92% as of March 2020.
- Average collection for March, April and May are at 97.5% and management expects to collect 1-1.5% more in June month, which is better than other real estate companies.
- Mindspace's current in-place rent is at `51.8 psf vs. market rent of `63.5 psf, which gives 22.6% MTM opportunity in near future.
- Mindspace has stable cash flow with contracted escalations of 10-15% every three years with typical average contract period (WALE) of 5.8 years.

### Exhibit 1: Mindspace Geography-wise Property Break-up



Source: Company, Angel Research, RHP

#### Distribution of income mechanism to Unit holders:

- 92% will be distributed in form of dividend, which is tax free in the hands of unit holders.
- 8% will be distributed in form of interest, which is taxable in the hands of unit holders.

#### Business Update: Covid-19

- Mindspace did not face any major disruptions in its operations from COVID-19, and has been able to collect 97.5% of revenue in the month of March, April and May.
- Since April 01, 2020, REIT has leased 0.7 msf of area (of which 40.5% was leased to its existing tenants and 59.5% was leased to new tenants).
- The company derives 99.4% of its gross contracted rentals from leasing of office premises, and it has not seen a significant decline in the rent receipts.

### Issue Details

Mindspace Business Parks is raising ₹1,000cr through fresh issue & Offer For Sale of ₹3,500cr, price band of ₹274-275.

#### Exhibit 2: Pre & Post Shareholding

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	52,53,85,000	85	42,54,54,545	65
Other	9,27,15,000	15	22,90,90,909	35
Total	61,81,00,000	100	65,45,45,454	100

Source: Company, RHP

### Objects of the offer

- ₹900cr for repayment/pre-payment of debt out of new issue of ₹1,000cr.
- Offer for sale from promoter and Blackstone of ₹3,500cr.

### Key Management Personnel

**Mr. Deepak Ghaisas** is the independent member of the Governing Board of the Manager. He holds a bachelor's degree in commerce from the University of Bombay. He is a qualified chartered accountant, cost accountant and company secretary. Deepak is director on the board of directors of Gencoval Strategic Services Private Limited.

**Ms. Manisha Girotra** is an independent member of the Governing Board of the Manager. She holds a bachelor's degree in economics from St. Stephen's College, Delhi and a master's degree in economics from Delhi School of Economics where she was awarded the Hira Lal Bhargava gold medal for academic excellence. She is currently the chief executive officer of Moelis and Company in India. She was previously associated with UBS Securities India Private Limited as the Chief Executive Officer and Country Head.

**Mr Ravi C. Raheja** is the group president of KRC group. He holds a bachelor's degree in commerce from the University of Mumbai and a master's degree in business administration from the London Business School. With over 23 years of work experience across real estate, retail and hospitality industry, he plays a key role in guiding the finance, corporate strategy and planning teams across divisions of the KRC group.

**Mr. Neel C. Raheja** is the group president of KRC group. He holds a bachelor's degree in law and a master's degree in commerce from the University of Mumbai. He has also completed the Owner/President Management Program from Harvard Business School. He has been instrumental in the diversification of the KRC group's business from real estate development to retail and hospitality for the last two decades. He has also played a key role in the organization's presence in retail brands namely Shoppers Stop, Inorbit Mall and Crossword.

**Consolidated Income Statement**

Y/E March (₹ Cr)	FY18	FY19	FY20
<b>Total Revenue from Operation</b>	1,502.2	1,679.7	2,026.2
% chg	5.0	11.8	20.6
<b>Total Expenditure</b>	477.3	418.3	654.4
Cost of work contract services	-	-	214.0
Change in material sold	0.8	0.4	0.3
Cost of Power purchased	55.0	61.7	68.3
Employee Benefit Expense	3.9	4.4	6.8
Other Expenses	417.6	351.8	365.0
<b>EBITDA</b>	1,024.9	1,261.4	1,371.8
% chg	-	23.1	8.8
(% of Total Revenue)	68.2	75.1	67.7
Depreciation & Amortisation	205.4	219.6	114.6
<b>EBIT</b>	819.5	1,041.8	1,257.2
% chg	-	27.1	20.7
(% of Total Revenue)	54.6	62.0	62.0
Interest & other Charges	468.8	446.2	511.4
<b>Profit before regulated activities and tax</b>	350.7	595.6	745.8
Regulated income	-1.9	7	1.4
Regulated income for earlier year	3.0	4.7	4.6
Profit before tax	351.8	607.3	751.8
Tax	190.8	123.9	237.9
<b>PAT (reported)</b>	159.9	471.7	512.5
% chg	-	195.0	8.6
(% of Total Revenue)	10.6	28.1	25.3

Source: Company,

**Consolidates Balance Sheet**

Y/E March (₹ Cr)	FY18	FY19	FY20
<b>SOURCES OF FUNDS</b>			
Capital	50.0	50.0	50.0
Other equity	1,125.0	1,581.0	1,992.8
Non controlling interest	99.9	133.6	166.3
<b>Total Equity</b>	<b>1,357.3</b>	<b>1,847.0</b>	<b>2,291.5</b>
<b>Total Loans</b>	<b>5,801.8</b>	<b>5,937.2</b>	<b>7,011.0</b>
Total Non Current Liabilities	184.7	152.1	279.7
<b>Total Liabilities</b>	<b>7,343.8</b>	<b>7,936.3</b>	<b>9,582.2</b>
<b>APPLICATION OF FUNDS</b>			
Net Block	126.3	121.8	145.3
Investment property	3941.1	4024.4	5671
Investment property under construction	1402.6	1905.9	1772.4
Capital Work-in-Progress	0.2	0.2	0.2
Current Assets	2,472.9	2,626.2	3,101.6
Inventories	2.1	3.3	5.2
Investments	2,112.9	2,100.0	2,176.3
Sundry Debtors	36.8	30.1	36.2
Cash & Bank Balance	44.6	63.0	256.1
Other Assets	276.5	429.8	627.8
Current liabilities	1,130.0	1,207.4	1,640.2
<b>Net Current Assets</b>	<b>1,342.9</b>	<b>1,418.8</b>	<b>1,461.4</b>
Other Non Current Asset	528.7	463.2	529.9
<b>Total Assets</b>	<b>7343.8</b>	<b>7936.3</b>	<b>9582.2</b>

Source: Company,

**Consolidated Cash Flow Statement**

Y/E March (₹Cr)	FY18	FY19	FY20
Profit before tax	351.8	607.3	751.8
Depreciation	205.6	219.7	114.6
Change in Working Capital	21.6	56.3	(122.7)
Interest Expense	468.8	446.2	511.4
Direct Tax Paid	(127.0)	(151.7)	(171.9)
Others	(161.8)	(243.3)	(256.6)
<b>Cash Flow from Operations</b>	<b>759.0</b>	<b>934.5</b>	<b>826.6</b>
(Inc.)/ Dec. in Fixed Assets	(489.4)	(771.3)	(1,388.1)
Investment in JV	(4.3)	12.9	(76.3)
Others	67.0	172.4	109.3
<b>Cash Flow from Investing</b>	<b>(426.7)</b>	<b>(586.0)</b>	<b>(1,355.1)</b>
Interest paid	(518.2)	(543.4)	(629.7)
Borrowings	141.1	247.4	1,163.7
Loan from related parties	(28.4)	(3.4)	-
Dividend paid on equity shares	(59.6)	(25.7)	(59.7)
Issue of Share capital	4.6	-	-
Share Premium received	(27.3)	(31.0)	(1.7)
<b>Cash Flow from Financing</b>	<b>(487.8)</b>	<b>(356.1)</b>	<b>472.6</b>
Inc./ (Dec.) in Cash	(155.5)	(7.6)	(55.9)
<b>Opening Cash balances</b>	<b>52.0</b>	<b>(103.5)</b>	<b>(111.9)</b>
<b>Closing Cash balances</b>	<b>(103.5)</b>	<b>(111.9)</b>	<b>(66.1)</b>

Source: Company,



**Key Ratios**

Y/E March	FY18	FY19	FY20
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	114.6	35.5	35.8
P/CEPS	32.9	24.3	21.7
P/BV	12.5	9.2	7.4
EV/Sales	15.1	13.6	11.7
EV/EBITDA	22.2	18.1	17.3
<b>Per Share Data (Rs)</b>			
EPS	2.4	7.7	7.7
Cash EPS	8.4	11.3	12.7
Book Value	22.0	29.9	37.1
DPS	0.96	0.42	0.97
<b>Returns (%)</b>			
Angel ROIC (Pre tax)	16.4%	18.5%	18.3%
ROE	11.8%	25.5%	22.4%
ROCE	11.4%	13.4%	13.5%

Source: Company

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