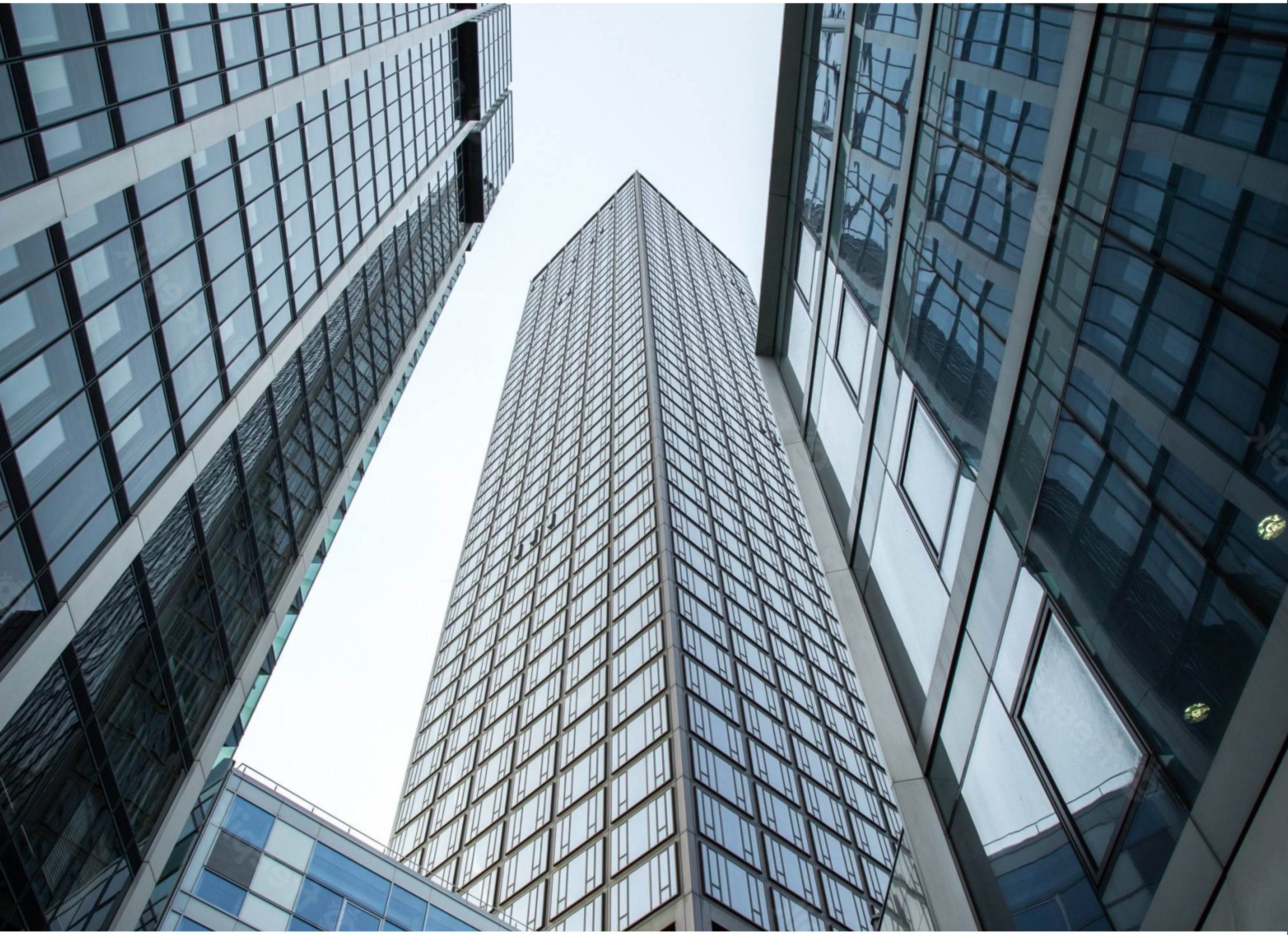
24 September 2023

INDIA | REAL ESTATE | COVERAGE INITIATION

JM FINANCIAL

Office REITs

Awaiting daybreak



Challenging demand environment

Focus on smaller deals and refurbishments

Select micro-markets to outperform

Image source:freepik.com

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Awaiting daybreak

The office real estate market faces significant economic and regulatory headwinds. Asset owners are contending with slowdown in demand for office spaces due to slower hiring and structural challenges led by the hybrid work model, increasing interest rates, and higher vacancies in SEZ assets. However, we expect a reversal in fortunes for the sector starting FY25E. The broader premise of India being the leading outsourcing destination is still on strong ground, interest rate cycle is possibly peaking out, clarity on SEZ de-notification is expected by this year end (DESH Bill) and there should be a gradual uptick in hiring activity by the IT/ITES sector. Currently, landlords are focusing more on smaller deals, conversion of spaces to non-SEZ uses and continuing the planned capital expenditure outlay through internal accruals/debt. We initiate on the Indian office REITs with a constructive outlook as they provide stable cash flows with 6-8% distribution yields. Preferred Pick: Embassy REIT, as it derives maximum value from Bengaluru, India's largest office market.

India is the offshoring capital of the world and will maintain its leadership position

Global Captive Centres (GCCs) have been expanding their footprint in India. Nearly 25% of the Grade-A office stock across the top eight cities in India is currently occupied by GCCs. The GCC sector in India in FY23 has grown to ~2x of its size in FY10, due to India's strengths in critical areas like availability of large tech talent, significant improvement in India's digital infrastructure, a growing start-up ecosystem and a very active entrepreneurial ecosystem. Bengaluru is the leading GCC destination in India and continues to maintain its leadership in this space. The GCC sector is estimated to grow from USD 33bn (gross output) to USD 60-80bn by FY30E. This augurs well for the Indian office market, particularly for cities like Bengaluru and Hyderabad.

Start-ups and domestic occupiers gaining ground in the last 2-5 years

India is the third largest start-up ecosystem in the world with 50,000+ recognised start-ups. Domestic start-ups have shown the highest growth rate of 38% in the last 12 years in total occupied space as compared to other office occupiers. This is not only led by rapid expansion of existing start-ups, but also new enterprises. The start-ups' footprint has quadrupled over the last 5 years, contributing 10% to office occupancy today vs. 3% in CY16. Additionally, the share of domestic occupiers in annual office absorption has gone up in the last 2 years. This can be attributed to strong demand from domestic corporates, increasing share of start-ups and preference of India IT/ITES companies for leased vs. owned office spaces.

Regulatory and economic headwinds exist, but should wane

While the premise of India being the top-most outsourcing destination continues to be strong, the share of the leasing volumes being transacted to set up new GCCs or 3rd party outsourcing centres has been impacted due to the adverse economic environment and adoption of the hybrid workspace model. SEZ offices are witnessing rising vacancy levels (~13% in 1QCY22 vs. 7.3% in 2019, largely due to the expiry of the direct tax benefits under the sunset clause. Vacancy levels in the SEZ areas constitute ~60-75% of the total vacancy of the listed office REITs (Source: Cushman and Wakefield). Any positive development on the de-notification aspect through the DESH bill or otherwise would ease the vacancy pressures on existing SEZs.

Stable performance of the listed REITS; select micro-markets will continue to outperform

Performance of the listed REITs have been stable with occupancies having bottomed out and rental growth majorly coming though annual built-in escalations. Despite the tough demand situation, gross leasing for our coverage universe has been healthy. Asset owners are currently focusing more on smaller deals, conversion of spaces to non-SEZ uses and continuing the planned capital expenditure outlay through internal accruals/debt. Certain micro-markets like the Sarjapur-ORR corridor in Bengaluru, Madhapur-HITEC City in Hyderabad and the Magarpatta – Kharadi belt in Pune should continue to outperform, as they remain the first preference for all Grade-A and MNC occupiers. Embassy and Mindspace have a presence in these markets and should benefit from the same.

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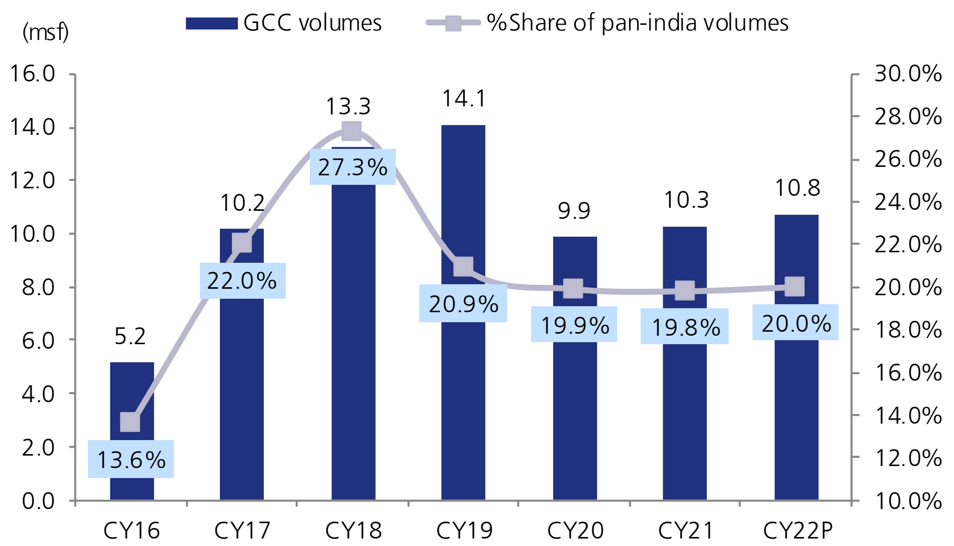
We acknowledge the support of Prithvi Shah in the preparation of this report

India Office: Growth drivers

Offshoring capital of the world

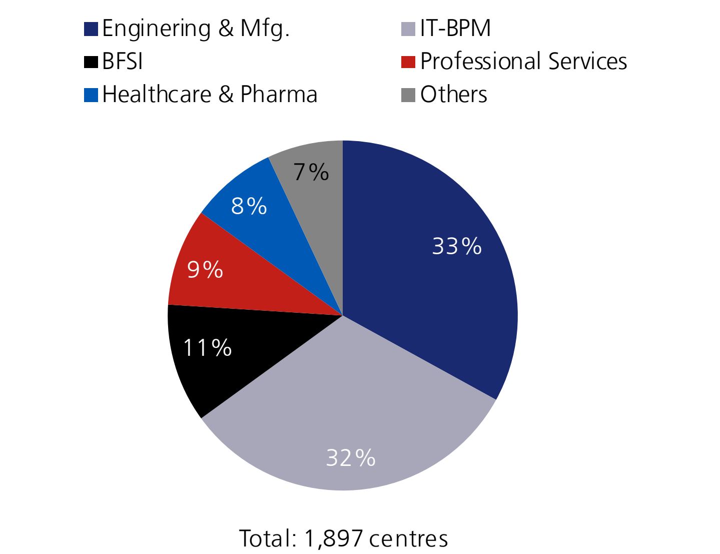
- In recent years, Global Captive Centres (GCCs) have been expanding their footprint in India. Nearly 25% of the Grade-A office stock across the top eight cities in India is currently occupied by GCCs. Future office demand is expected to be fuelled by more GCCs trying to establish a presence across the country's major cities (Source: C&W).

Exhibit 1. Share of GCCs in pan-India leasing volume



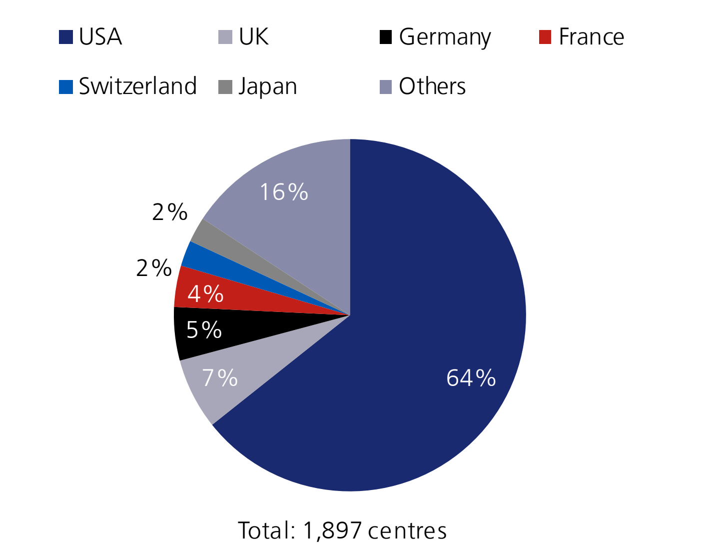
Source: Cushman and Wakefield, JM Financial

Exhibit 2. Classification of GCCs by Industry



Source: Cushman and Wakefield, JM Financial

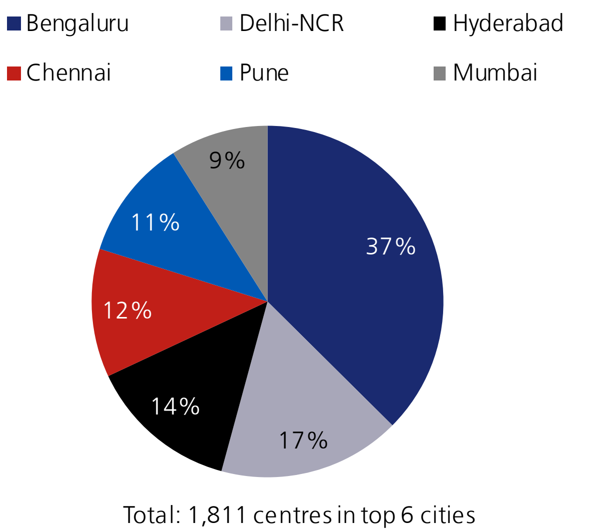
Exhibit 3. Classification of GCCs by Country of Origin



Source: Cushman and Wakefield, JM Financial

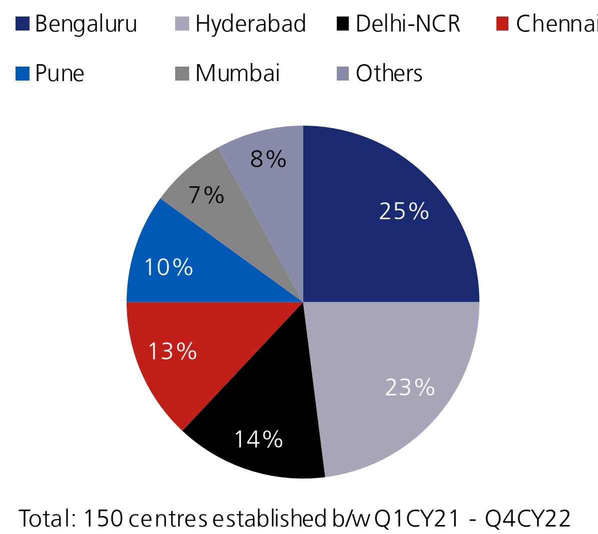
- US- and UK-based multinationals currently own ~70% of the GCCs operating in India. The US alone contributes to nearly two-thirds of the GCCs while European companies account for over 25% of the GCCs in India (Source: C&W).
- In terms of industries, ER&D centres make up 1/3rd of the GCCs, followed by the IT/BPM captive centres. Bengaluru remains the top destination for GCCs and has continued to maintain its leadership, followed by Hyderabad (Source: C&W).

Exhibit 4. Bengaluru is the leading GCC destination…



Source: Cushman and Wakefield, JM Financial

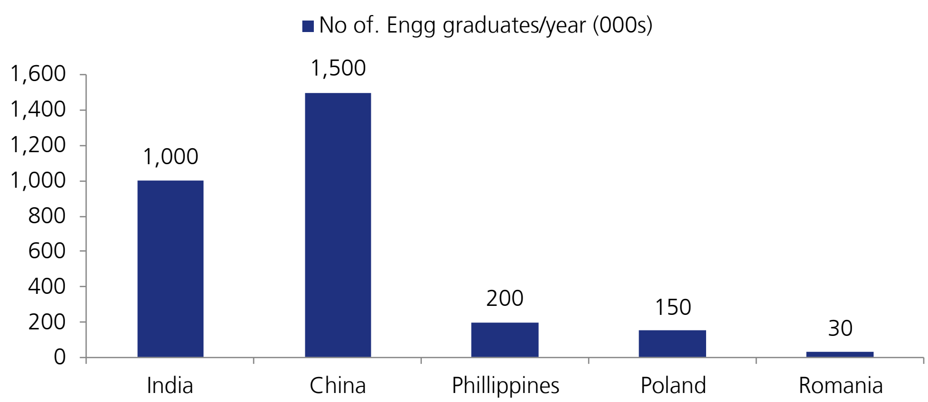
Exhibit 5. …and has retained market share in new centres



Source: Cushman and Wakefield, JM Financial

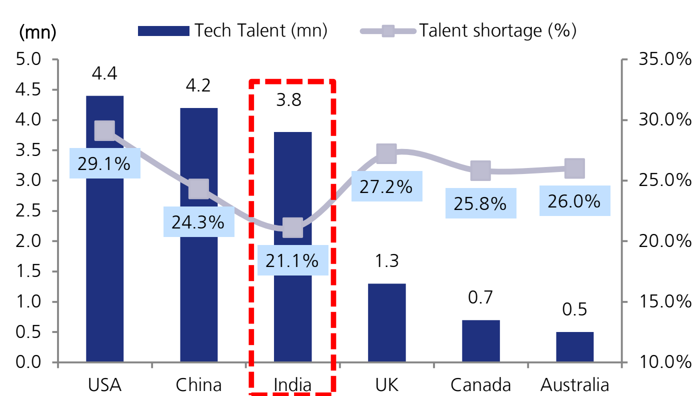
- For the GCC industry in India, the primary growth drivers are the country's competitiveness in critical areas like availability of large tech talent, significant improvement in India's digital infrastructure, a growing start-up ecosystem, and a very active entrepreneurial ecosystem.

Exhibit 6. Engineering talent in India and comparable nations



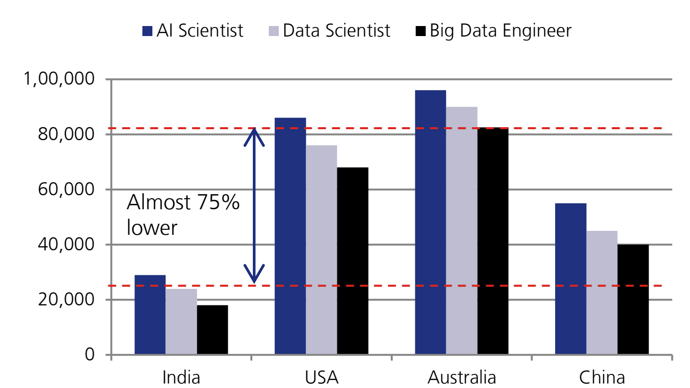
Source: Cushman and Wakefield, JM Financial

Exhibit 7. Shortage in India is lesser vs. other countries



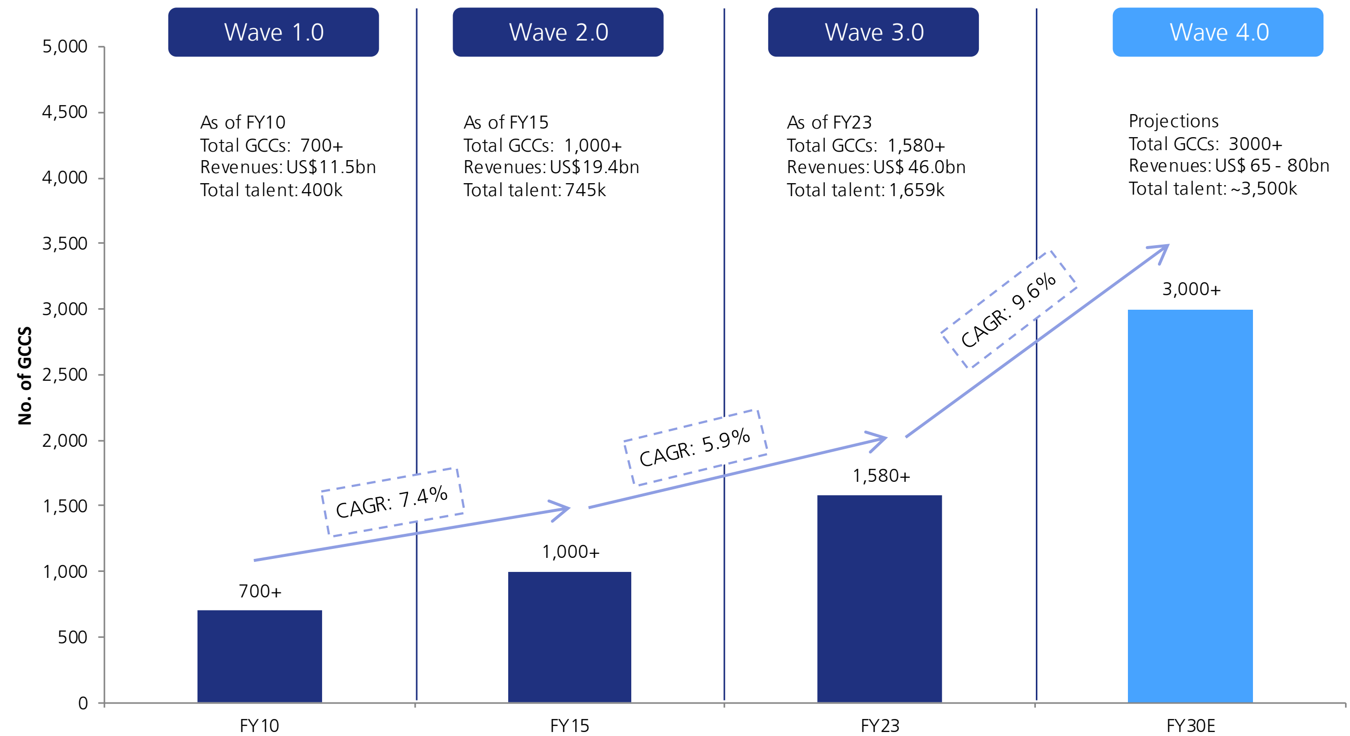
Source: Cushman and Wakefield, JM Financial

Exhibit 8. Competitive entry-level salaries across job roles



Source: Cushman and Wakefield, JM Financial

Exhibit 9. Growth potential for the GCC sector



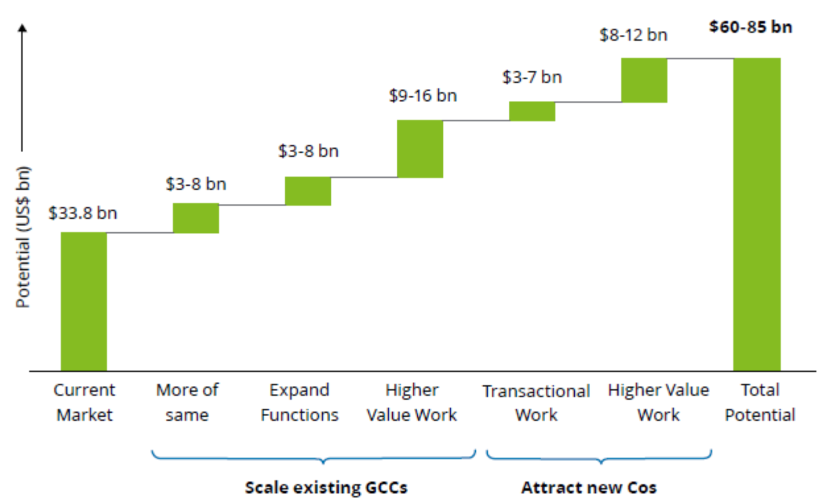
Source: Nasscom, JM Financial

- While the GCC sector has had a significant economic impact on the country thus far, there is still ample runway for further growth, amplifying its impact across gross output, tax contribution, and employment generation. There is an opportunity for growth amongst existing GCCs (by increasing penetration of Indian operations in global operations) as well as attracting new GCCs from global organisations hitherto not present in India.
- The growth levers are mainly under two buckets:

  -Scale existing GCCs: (1) Do more of the same work (2) Encourage centres to move from single function to multi-function (3) Move up the value chain – increase ownership across roles.

  -Attract new companies: (1) Incentives to encourage global companies to set up GCCs that lead to higher employment (2) Target global companies to tap into innovation talent at scale for both organic and open innovation as well as industry-specific centres.

Exhibit 10. Potential market size of the GCC sector in India

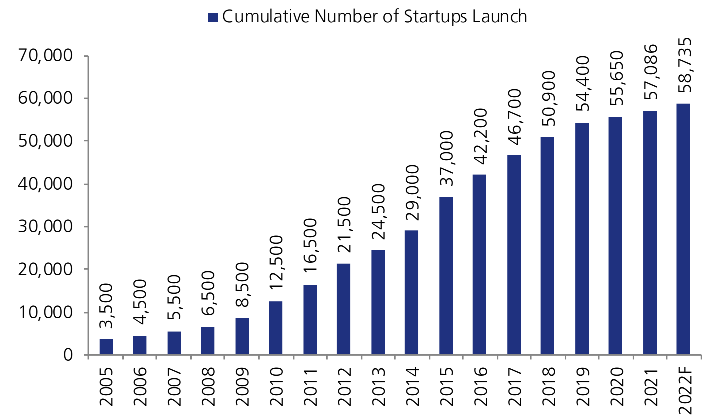


Source: Nasscom, JM Financial

Start-ups and new age companies coming up

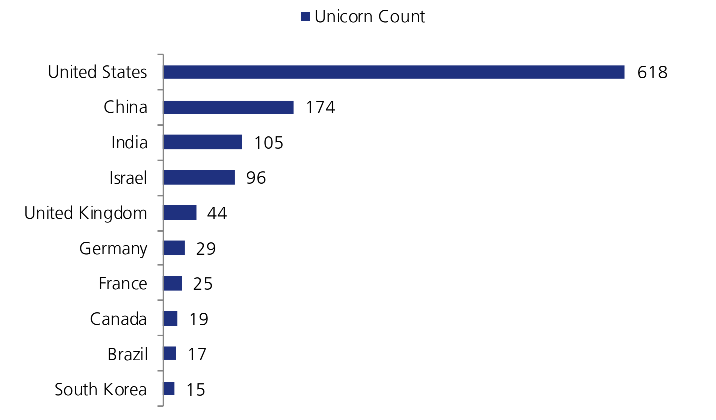
- India is the 3rd largest start-up ecosystem in the world with 50,000+ recognised start-ups. The start-up ecosystem has created 0.7mn direct jobs and 3.4mn indirect jobs in the last decade. (Source: DPIIT).

Exhibit 11. 3rd largest start-up ecosystem in the world…



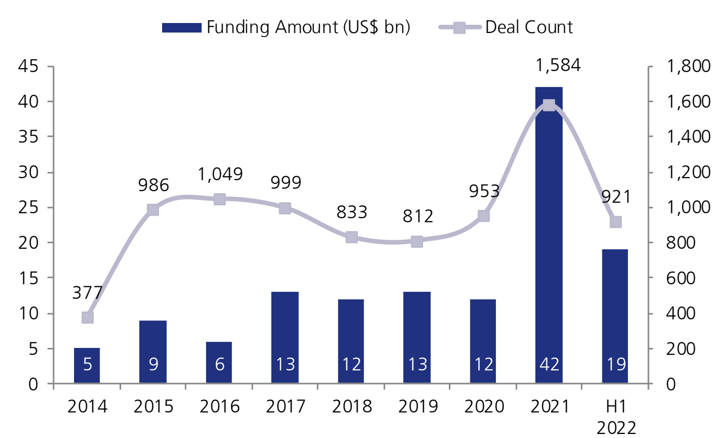
Source: Inc42, JM Financial

Exhibit 12. …third largest in number of unicorns as well



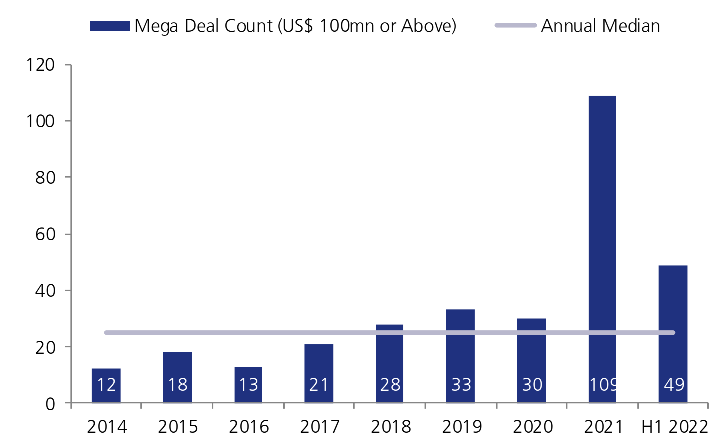
Source: Inc42, JM Financial

Exhibit 13. Start-ups have raised ~USD 3trln in last 2 years



Source: Inc42, JM Financial

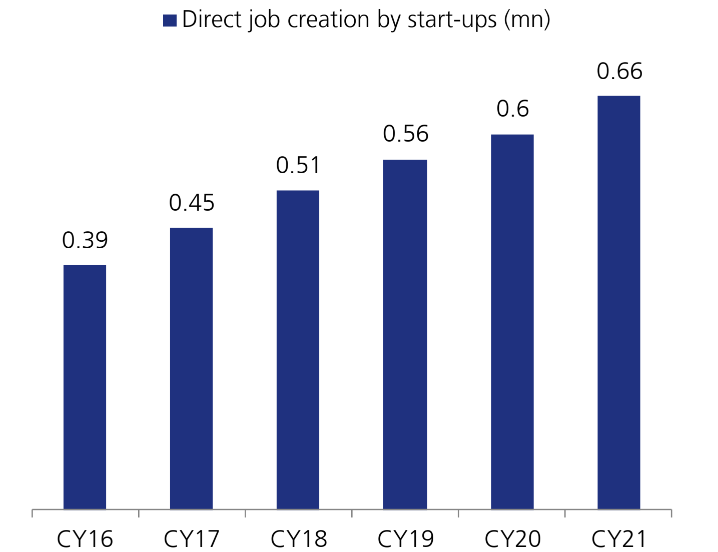
Exhibit 14. Deal sizes have started inching up



Source: Inc42, JM Financial

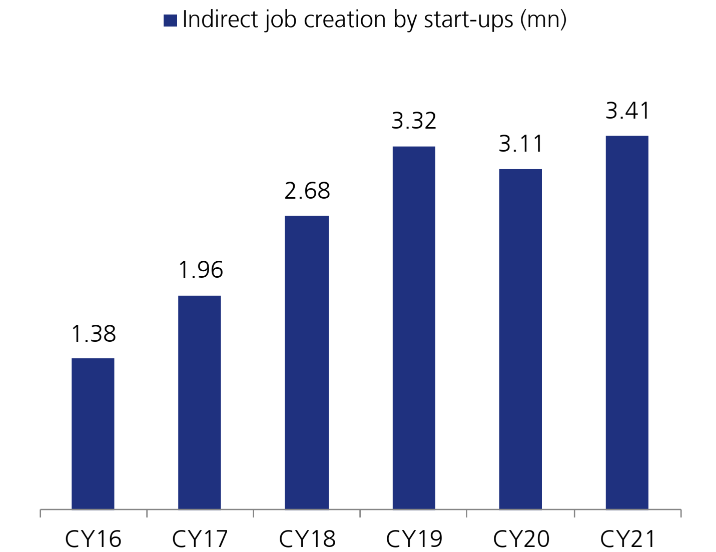
- India's commercial office space has largely been dominated by global companies that account for more half of the space across the country. Since 2016, start-ups expanded and started occupying key office space in the top cities. While global companies, followed by Indian conglomerates, remain the largest occupiers of commercial office space, start-ups are leasing space at a rapid pace.
- Start-ups have shown the highest growth rate of 38% in the last 12 years in total occupied space as compared to other office occupiers. This is not only led by rapid expansion of existing start-ups, but also new enterprises (Source: Colliers and CRE Matrix Report on Start-ups).
- The annual growth in footprint of Fortune 500 and other large companies is slowing down to single digits. On the other hand, the start-ups' footprint has quadrupled over the last 5 years, contributing 10% to the office occupancy today vs. 3% in CY16 (Source: Colliers and CRE Matrix Report on Start-ups).

Exhibit 15. Cumulative direct jobs created by start-ups



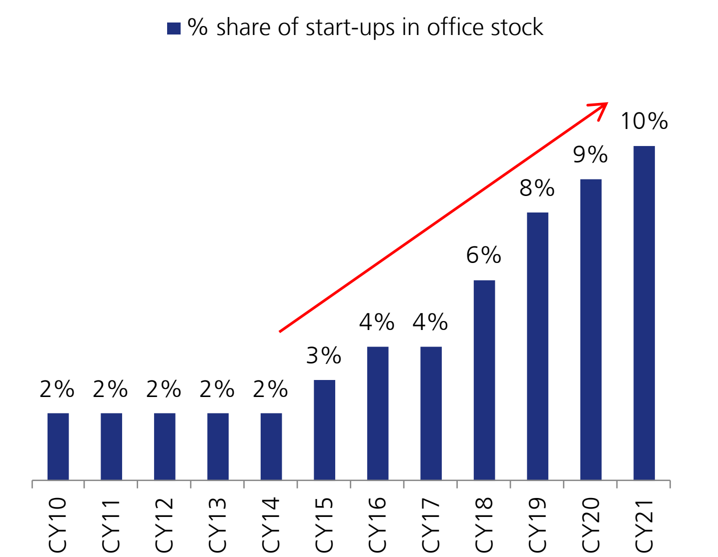
Source: Nasscom, Zinnov, JM Financial

Exhibit 16. Cumulative direct jobs created by start-ups



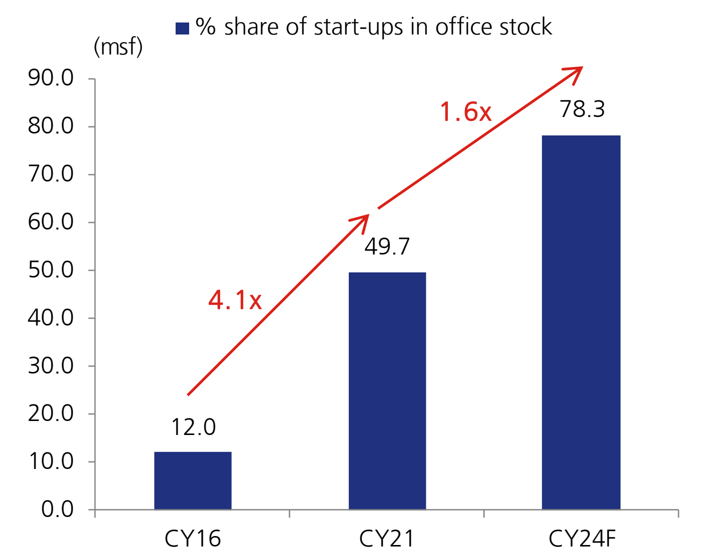
Source: Nasscom, Zinnov, JM Financial

Exhibit 17. Share of start-ups in total occupied office stock



Source: Colliers, CRE Matrix, JM Financial

Exhibit 18. Space occupied by start-ups expected to grow 1.6x

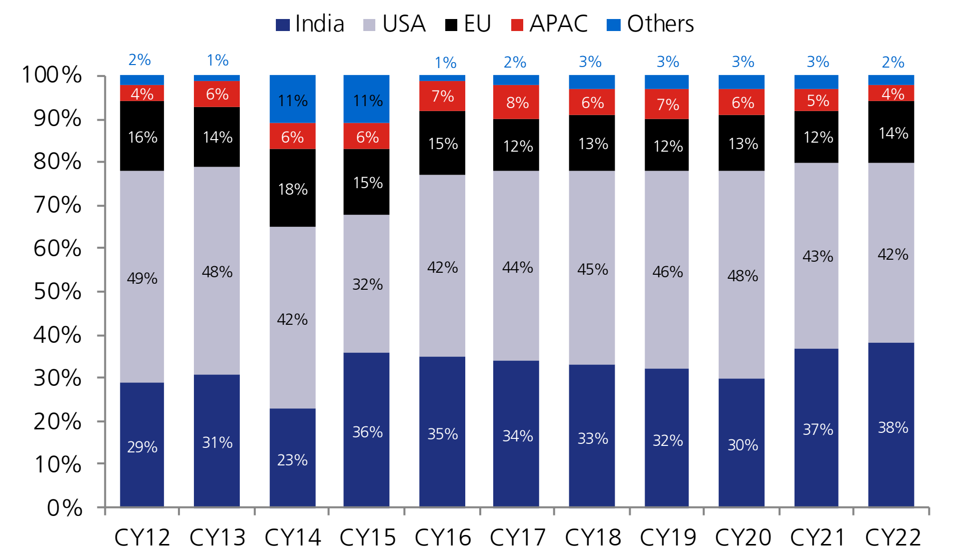


Source: Colliers, CRE Matrix, JM Financial

Domestic footprint expanding

- India is one of the fastest growing large economies in the world and is expected to outpace other large economies in the next 3-5 years. As India's GDP grows, the demand for office space from domestic corporates should also grow in tandem.
- The share of domestic occupiers in annual office absorption has gone up in the last 2 years. This is mainly due to strong demand from domestic corporates, increasing share of start-ups and preference of India IT/ITES companies for leased vs. owned office space.

Exhibit 19. Share of domestic occupiers has increased in the last 2 years



Source: Cushman and Wakefield, JM Financial.

Exhibit 20. Office leasing drivers in India

Sector	Projections		2022 absorption surpassed pre-COVID leasing quantum of	2022 vs 2021 (% change): Transaction volume	2022 vs 2021 (% change): Number of transactions	2022 vs 2021 (% change): Average deal size
Technology	**USD 300–350 bn** Revenue from Indian tech sector by 2025, from USD 190 bn in 2020[i]		2018			
BFSI	**USD 150 bn;** Size of fintech industry by 2025[ii]	**6th largest** Insurance market in the world by 2032[iii]	2018			
Engineering & manufacturing	**USD 1 tn** Manufacturing sector's potential by 2025[ii]		2019			
Flexible space operators	**60+ mn sq. ft.** Flexible space stock In India in 2023—an increase of 15-20% from 2022		2018			
Research, consulting & analytics	**5-7%** Employment growth in professional, scientific & technical services in 2023[iv]		2018			
E-commerce	**USD 75 bn to USD 111 bn** Market size growth from 2022 to 2024[ii]		2019*			
Infrastructure, real estate & logistics	**USD 1 tn** Real estate sector size by 2030[ii]		2019			
Life sciences	**USD 65 bn** Domestic pharmaceutical market by 2024[v]		2019			

* Close to 2019 levels
Source: [i] NASSCOM, February 2021; [ii] IBEF; [iii] SwissRe; [iv] Oxford Economics, December 2022; [v] Economic Survey 2022-23; CBRE India Research, Q1 2023

Y-o-Y % change: -25 to -50% | 0 to -25% | 0% | 0-25% | 25-50% | 50-75% | 75-100% | >100%

Source: CBRE, JM Financial

Valuation tables

Exhibit 21. Key financial metrics (JMFe)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue (INR mn)				
Embassy	34,195	37,444	41,087	46,348
Mindspace	20,692	22,865	25,049	27,742
Brookfield	20,340	22,481	24,277	26,743
Reported NOI (INR mn)				
Embassy	27,663	30,379	33,540	37,717
Mindspace	17,101	18,580	20,559	22,808
Brookfield	16,896	19,356	20,148	21,559
NOI Margin (%)				
Embassy	81%	81%	82%	81%
Mindspace	83%	81%	82%	82%
Brookfield	83%	86%	83%	81%
EBITDA (INR mn)				
Embassy	27,856	30,273	33,209	36,966
Mindspace	15,596	17,343	19,219	21,289
Brookfield	14,536	18,356	19,107	20,415
EBITDA Margin (%)				
Embassy	81%	81%	81%	80%
Mindspace	75%	76%	77%	77%
Brookfield	71%	82%	79%	76%
NDCF (INR mn)				
Embassy	20,608	19,561	21,586	24,737
Mindspace	11,326	11,882	12,849	13,101
Brookfield	6,786	8,696	9,252	10,044
DPU (INR p.u.)				
Embassy	21.7	20.6	22.8	26.1
Mindspace	19.1	20.0	21.7	22.1
Brookfield	20.3	19.8	21.1	22.9
Net Debt (INR mn)				
Embassy	139,301	148,096	156,811	165,557
Mindspace	51,692	62,609	73,684	81,958
Brookfield	52,424	100,286	102,082	105,992

Source: Company, JM Financial

Exhibit 22. Key valuation metrics (JMFe)

Particulars	CMP (INR)	Units (in mn)	Mcap (INR mn)	NDCF Yield (%)			EV (INR mn)			Cap Rate (%)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Embassy	304	948	288,145	6.8%	7.5%	8.6%	436,240	444,955	453,702	7.0%	7.5%	8.3%
Mindspace	312	593	185,170	6.4%	6.9%	7.1%	247,779	258,854	267,128	7.5%	7.9%	8.5%
Brookfield	244	439	107,225	8.1%	8.6%	9.4%	207,511	209,306	213,216	9.3%	9.6%	10.1%

Source: Company, JM Financial

Brookfield India Real Estate Trust | BUY

JM FINANCIAL

New acquisitions to drive growth

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We acknowledge the support of **Prithvi Shah** in the preparation of this report

Brookfield India REIT (BIRET) is India's first and only 100% institutionally managed REIT, owning 25.2msf (operational area: 20.6msf, under construction: 0.7msf and future development: 3.9msf) of Grade-A office properties located across the key markets in India. It is backed by Brookfield Asset Management (BAM), one of the world's largest asset managers, which has more than USD 260bn in real estate assets under management (AUM). As occupancy improves gradually, we expect rental revenue to grow at a CAGR of 6% in FY23-FY26E. We assume coverage with BUY and a DCF-based target price of INR 280, implying a total return of 25.8%, including a 12-month dividend yield of 8.3%

- **High quality properties in gateway cities:** BIRET has a Grade-A portfolio of 25.2msf across seven assets located in the top office locations of Gurugram (34% of the portfolio by Gross Asset Value), Mumbai (33%), Noida (24%) and Kolkata (10%). These assets enjoy dominant positioning in their respective markets. With long development tenures and dearth of similar large campus-format properties in comparable locations, the assets are difficult to replicate. On the back of these strengths, we estimate occupancies at the Brookfield portfolio to improve to ~90% by FY26E.

- **Strong track record of value creation:** Under the ownership of the sponsor (Brookfield Group), and subsequently in the REIT, the portfolio assets have made significant operating progress under the Brookfield Group's ownership. Despite adding and operationalising new developments at the Delhi-NCR and Kolkata assets (operating area grew by ~2.5x at these parks), the REIT manager has been able to maintain high levels of committed occupancy and healthy growth in per square foot rents. The new acquisitions in the REIT (Downtown Powai, and G1, Gurugram) should help diversify the tenant base and increase exposure to the markets of Mumbai/Gurugram, which have greater depth.

- **Good visibility of growth from the ROFO pipeline:** In 2QFY24, BIRET concluded the acquisition of Downtown Powai and Candor Techspace G1. Other than the ROFO assets of 2.8msf, the Brookfield Group (sponsor) owns a pan-India office portfolio spanning ~20msf, including completed area that is estimated to be ~14.0msf. This will enable BIRET to continue exploring acquisition opportunities within the sponsor portfolio. Management guidance of capping debt at LTV of ~35% implies that BIRET will have to raise equity for inorganic growth opportunities.

- **Assume coverage with BUY, TP of INR 280:** With improving physical occupancy at all offices and strong hiring across IT / services / captives over the past 18 months, demand for office space should recover eventually. We estimate BIRET's portfolio-wide occupancy to go to 90% by FY26E from 83% as of end-FY23. BIRET has always enjoyed high occupancy (peak of 96% in FY20) before Covid-19. Accordingly, we estimate Gross Rentals/DPU to grow at FY24-FY26E CAGR of 5.8%/4.9%. We assume coverage with BUY rating and a DCF-based target of INR 280 per unit. We estimate Brookfield to distribute INR 19.8 per unit of DPU, reflecting a total return of 25.8%.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	280
Upside/(Downside)	14.9%
Previous Price Target	340
Change	-17.6%

Key Data – BIRET IN	
Current Market Price	INR244
Market cap (bn)	INR107.0/US$1.3
Free Float	99%
Shares in issue (mn)	439.1
Diluted share (mn)	439.1
3-mon avg daily val (mn)	INR106.2/US$1.3
52-week range	338/236
Sensex/Nifty	66,009/19,674
INR/US$	82.9

Price Performance			
%	1M	6M	12M
Absolute	-2.0	-7.4	-25.2
Relative*	-3.7	-19.3	-34.2

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	8,768	20,340	22,481	24,277	26,743
Sales Growth (%)	2.8	132.0	10.5	8.0	10.2
EBITDA	6,183	14,536	18,356	19,107	20,415
EBITDA Margin (%)	70.5	71.5	81.7	78.7	76.3
Adjusted Net Profit	2,463	869	4,349	4,278	4,365
Diluted EPS (INR)	7.3	2.6	9.9	9.7	9.9
Diluted EPS Growth (%)	-60.8	-64.7	281.8	-1.6	2.0
ROIC (%)	3.8	6.6	6.5	6.7	7.2
ROE (%)	2.9	1.0	4.8	4.3	4.6
P/E (x)	33.2	94.1	24.6	25.0	24.5
P/B (x)	0.9	1.1	1.0	1.1	1.2
EV/EBITDA (x)	25.3	15.2	10.7	10.4	9.9
Dividend Yield (%)	8.4	8.3	7.5	7.9	8.4

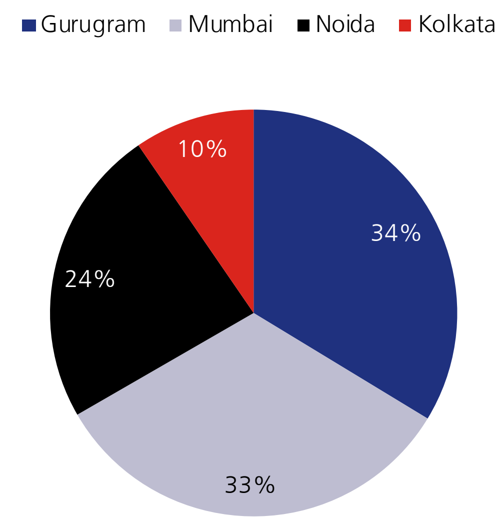
Source: Company data, JM Financial. Note: Valuations as of 22/Sep/2023

Investment Rationale

High quality properties in gateway cities

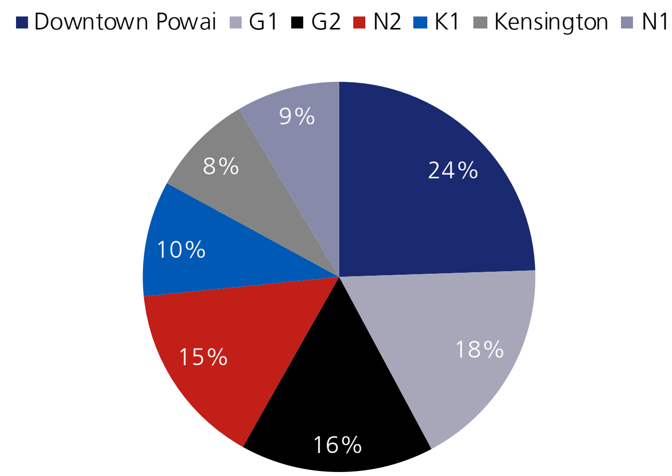
- BIRET's portfolio comprises 25.2msf of leasable area across seven assets spread across Gurugram (34% of the portfolio by GAV), Mumbai (33%), Noida (24%) and Kolkata (10%). These assets enjoy dominant positioning in their respective markets:
  - Candor Techspace G2: One of the largest campus-style offices in CBD Gurugram in terms of leasable area
  - Candor Techspace K1: Largest campus style office development in Eastern India
  - Candor Techspace N2: Largest office campus in NOIDA in terms of leasable area

Exhibit 1. Gurugram is the largest exposure (by GAV)…



Source: Company, JM Financial
Note: Pro-forma portfolio, post-acquisition of Downtown Powai and Candor Techspace G1

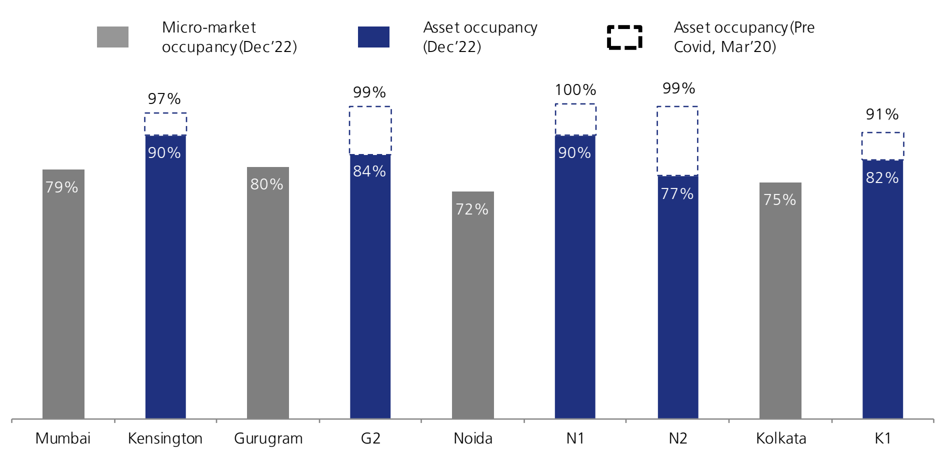
Exhibit 2. …but Downtown Powai is the largest asset



Source: Company, JM Financial
Note: Pro-forma portfolio, post-acquisition of Downtown Powai and Candor Techspace G1

- BIRET remains one of the largest landlords in each of these micro-markets, allowing efficiencies in asset management, operations and tenant offerings. With long development times and dearth of similar large campus-format properties in comparable advantaged locations, the assets become difficult to replicate.
- BIRET has demonstrated a track record of attracting new occupiers and consolidating existing ones in its business park. This is evident in occupancy and rental growth trends, where BIRET's properties have consistently outperformed the competing properties in the respective micro-markets.

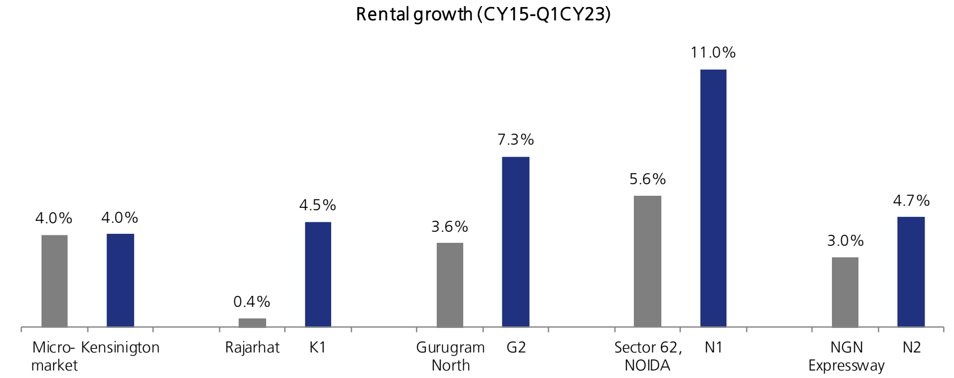
Exhibit 3. Superior occupancy relative to the larger markets



Source: Company, JM Financial, Valuation report, 31st Mar'23

- Higher rental growth has been achieved since the acquisition of the portfolio by BIRET and has been consistent across all assets and time periods.

Exhibit 4. Higher rental growth relative to the larger micro-markets

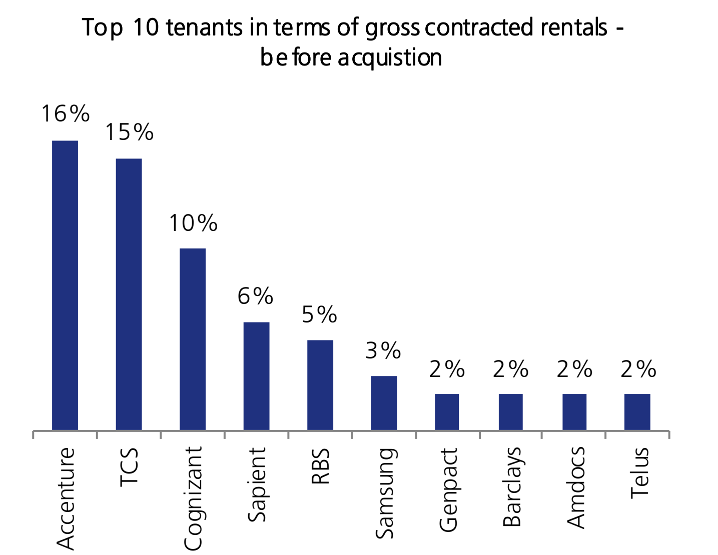


Source: Company, JM Financial

Pro-forma portfolio has lower concentration risk

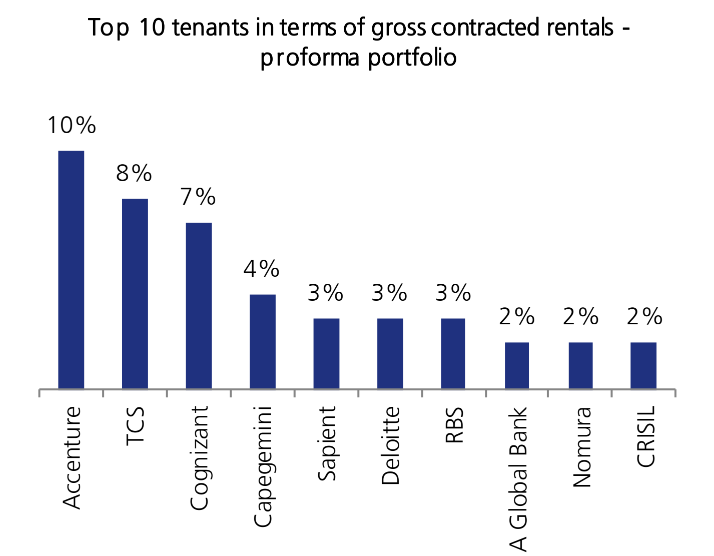
- Post the acquisition of Downtown Powai and Candor Techspace G1, the pro-forma portfolio saw a significant reduction (from 63% to 45%) in the top 10 tenant concentration.
- It has also led to diversification of sector exposure with share of BFSI rising from 12% to 22% whereas the share of Technology clients has gone down from 46% to 32%.

Exhibit 5. Top 10 tenant concentration was ~63%...



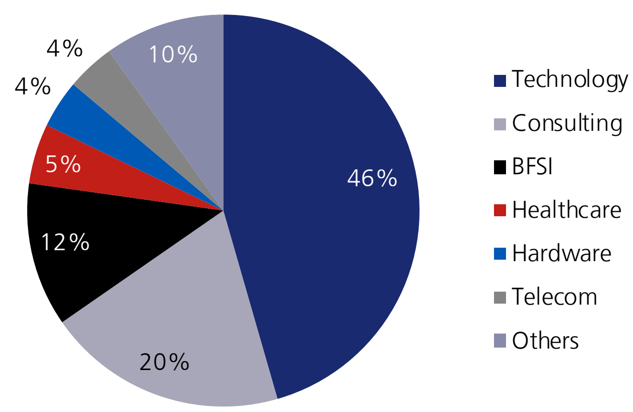
Source: Company, JM Financial

Exhibit 6. …it is now down to 45% in the pro-forma portfolio



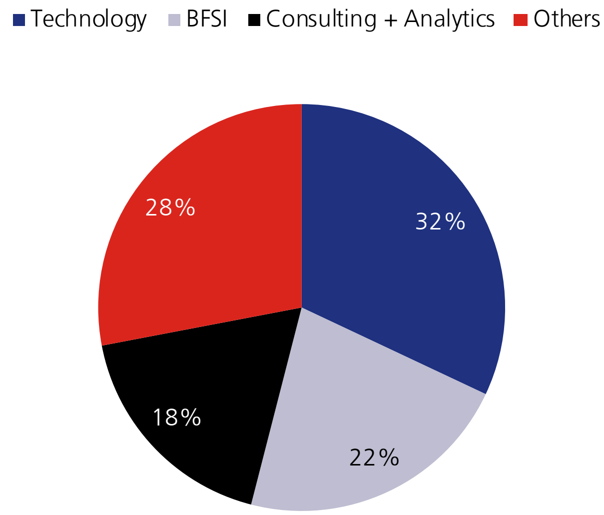
Source: Company, JM Financial
Note: Pro-forma portfolio is the portfolio post acquisition of Downtown Powai and Candor Techspace G1

Exhibit 7. High exposure to Technology clients…



Source: Company, JM Financial

Exhibit 8. …has come down in the pro-forma portfolio



Source: Company, JM Financial

- BIRET has been able to retain its top tenants, and it has also helped them consolidate/expand their presence in its business parks. New developments at the acquired properties drive portfolio expansion, as seen in numerous cases especially at the properties acquired from Unitech Corporate Parks.

Exhibit 9. Existing tenants have expanded their footprints across parks

Asset	Tenant	Occupied Area (000 sf)		
		Previously	Current	Growth (%)
Candor Techspace K1	Global IT Services MNC	531	1137	114%
Candor Techspace N1	Fortune 500 UK Based Bank	249	399	60%
Candor Techspace G2	Leading Technology Co.	153	204	33%
Candor Techspace G2	Fortune 500 Consulting Co.	476	1187	149%
Candor Techspace N2	American Semiconductor Co.	101	140	39%
Candor Techspace N2	Canadian Telecom Giant	130	273	110%
Downtown, Powai	Global Consulting Company	228	289	27%
Downtown, Powai	Global BFSI Company	122	216	77%
Candor Techspace G1	Global Technology Company	80	561	601%
Candor Techspace G1	Global Telecom Company	27	114	322%
Candor Techspace G1	Global Analytics Company	135	224	66%

Source: Company, JM Financial

Strong track record of value creation

- Brookfield Group acquired the portfolio of Unitech Corporate Parks in FY15, and the office parks have made significant operating progress under the Group's ownership. Despite adding and operationalising new developments (operating area grew by ~2.5x at these parks), the REIT manager has been able to maintain high levels of committed occupancy and healthy growth in per square foot rents.

Under the group's ownership the operational area grew ~2.0x with good growth in in-place rentals.

Exhibit 10. Value creation at Candor Techspace G2

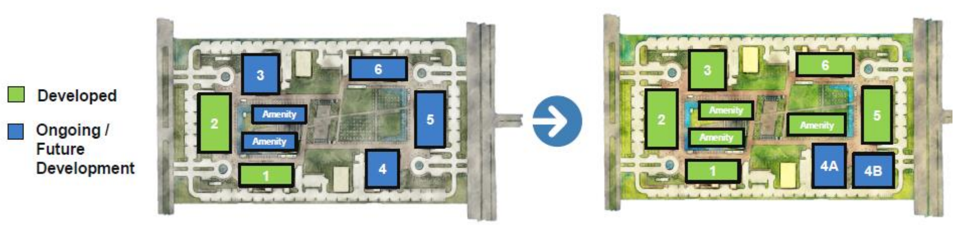
	At Acquisition (Mar 2015)	Current (Dec 2022)	Value Add
Total MSF	3.6	4.0	+0.4 MSF
Operational MSF	2.0	3.9	2.0x
Leased MSF	1.8	3.3	1.8x
In-place Rents	Rs 66 PSF	Rs 83 PSF	+26%
New Leasing Rents(1)	Rs 58 PSF	Rs 85 PSF	+46%

(1) Average new leasing rent for 12 months ended December 31, 2015 and 12 months ended December 31, 2022.

Source: Company, JM Financial

At N1, new developments led to a ~3.0x increase in operational area. With substantial leasing at higher rentals, the in-place rentals also grew by 44% in 6-7 years.

Exhibit 11. Value creation at Candor Techspace N1



	At Acquisition (Mar 2015)	Current (Dec 2022)	Value Add
Total MSF	2.2	2.8	+0.6 MSF
Operational MSF	0.7	2.0	2.9x
Leased MSF	0.4	1.8	4.5x
In-place Rents	Rs 33 PSF	Rs 48 PSF	+44%
New Leasing Rents(1)	Rs 33 PSF	Rs 59 PSF	+80%

(1) Average new leasing rent for 12 months ended December 31, 2015 and 12 months ended December 31, 2022.

Source: Company, JM Financial

Exhibit 12. Value creation at Candor Techspace N2

	At Acquisition (Mar 2015)	Current (Dec 2022)	Value Add
Total MSF	3.4	4.5	+1.2 MSF
Operational MSF	1.6	3.8	2.4x
Leased MSF	1.5	2.9	1.9x
In-place Rents	Rs 40 PSF	Rs 55 PSF	+37%
New Leasing Rents[1]	Rs 42 PSF	Rs 65 PSF	+56%

(1) Average new leasing rent for 12 months ended December 31, 2015 and 12 months ended December 31, 2022.

Source: Company, JM Financial

Similar performance at N2, where operating area grew ~2.4x along with good growth in in-place rentals

Exhibit 13. Value creation at Candor Techspace K1

	At Acquisition (Mar 2015)	Current (Dec 2022)	Value Add
Total MSF	3.4	4.5	+1.2 MSF
Operational MSF	1.6	3.8	2.4x
Leased MSF	1.5	2.9	1.9x
In-place Rents	Rs 40 PSF	Rs 55 PSF	+37%
New Leasing Rents[1]	Rs 42 PSF	Rs 65 PSF	+56%

(1) Average new leasing rent for 12 months ended December 31, 2015 and 12 months ended December 31, 2022.

Source: Company, JM Financial

Even though located in a less-favoured geography, performance of the asset tremendously improved under the group's ownership

Good visibility of growth from the ROFO pipeline

- BIRET had enlisted Candor Techspace N2 and Candor Techspace G1 as the identified pipeline assets at the time of listing. These assets were to be added to the REIT portfolio before the initial deadline of 31st Aug'22. Later, the deadlines were extended as the commercial office sector disrupted due to the Covid-19 outbreak. Subsequently, Downtown Powai was also added to the list of identified assets.
- In 3QFY22, BIRET announced the acquisition of Candor Techspace N2. The acquisition was completed at an enterprise value of INR 39.7bn (implied cap-rate of 7.7%). It was funded by preferential issue of INR 4.6bn to the seller, third party preferential issue of INR 5.0bn and debt issuance of INR 29.1bn. The acquisition price included income support of up to INR 1.5bn for 100% effective economic occupancy with maximum tenure up to end of FY24.

Exhibit 14. Summary of funding for N2 asset

Sources of Funds*	(INR mn)	Uses of Funds*	(INR mn)
Equity Issuance	9,500	Consideration to the Sellers	17,704
Seller Preferential Issue	4,550	Cash consideration	13,154
Third Party Preferential Issue	4,950	Units consideration	4,450
Debt Issuance	**29,057**	**Refinancing of External Debt & other expenses**	**20,853**
Asset SPV Debt Redemption Proceeds	9,000		
External debt at SDPL Noida (4)	20,057		
Total Sources	**38,557**	**Total Uses**	**38,557**

Source: Company, JM Financial
* Net of security deposits, other net liabilities and adjustments totalling to INR 1,902mn

- In 2QFY24, BIRET concluded the acquisition of Downtown Powai and Candor Techspace G1. With this acquisition, both the assets initially identified as ROFO assets (at the time of IPO) have been added to the REIT. The transaction was concluded at an acquisition price of INR 112.3bn (implied cap rate of 7.5%) with another INR 1.5bn to be paid for purchase of 100% interest in MIOP (property management entity for G1). The sponsor group has provided an income support of up to INR 2.0bn for G1, which will be in force for a maximum of 2 years from the date of acquisition.

Exhibit 15. Summary of the funding for G1 & Downtown Powai

Sources of Funds	(INR mn)	Uses of Funds	(INR mn)
BIRET Equity Issuance	23,050	Consideration to the Sellers	51,767
Preferential Issue to Sponsor	4,000	Repayment of debt	13,500
Investment by GIC	32,633	**Refinancing of External Debt**	**42,396**
Debt Issuance	**49,346**	Transaction Expenses / Cash Reserve	1,367
Total Sources	**109,030**	**Total Uses**	**109,030**

Source: Company, JM Financial

- Other than the ROFO assets of 2.8msf, the Brookfield Group (sponsor) owns a pan-India office portfolio spanning ~20msf, including completed area estimated to be ~14msf. This will enable Brookfield to continue exploring acquisition opportunities within the sponsor portfolio.

Exhibit 16. ROFO assets and other assets owned by the sponsor

Asset name	City	Leasable Area (msf)
ROFO properties		
Equinox Business Park	Mumbai	1.3
Units in Godrej BKC	Mumbai	0.2
Waterstones	Mumbai	1.3
Total - ROFO assets		**2.8**
Other assets held by the Sponsor		
Azure	Bengaluru	0.5
Centennial	Bengaluru	0.5
Ecospace	Bengaluru	3.2
Ecoworld 4D	Bengaluru	6.7
Northstar	Bengaluru	0.2

Asset name	City	Leasable Area (msf)
NXT	Bengaluru	0.9
Galleria	Bengaluru	0.5
Millenia	Chennai	2.5
Airtel Centre	Gurugram	0.7
Worldmark - Aerocity	New Delhi	1.4
Worldmark - Sector 65	New Delhi	0.8
45 Icon	Pune	0.4
Bluegrass Business Park	Pune	1.7
Total other assets		**19.9**

Source: Company, JM Financial

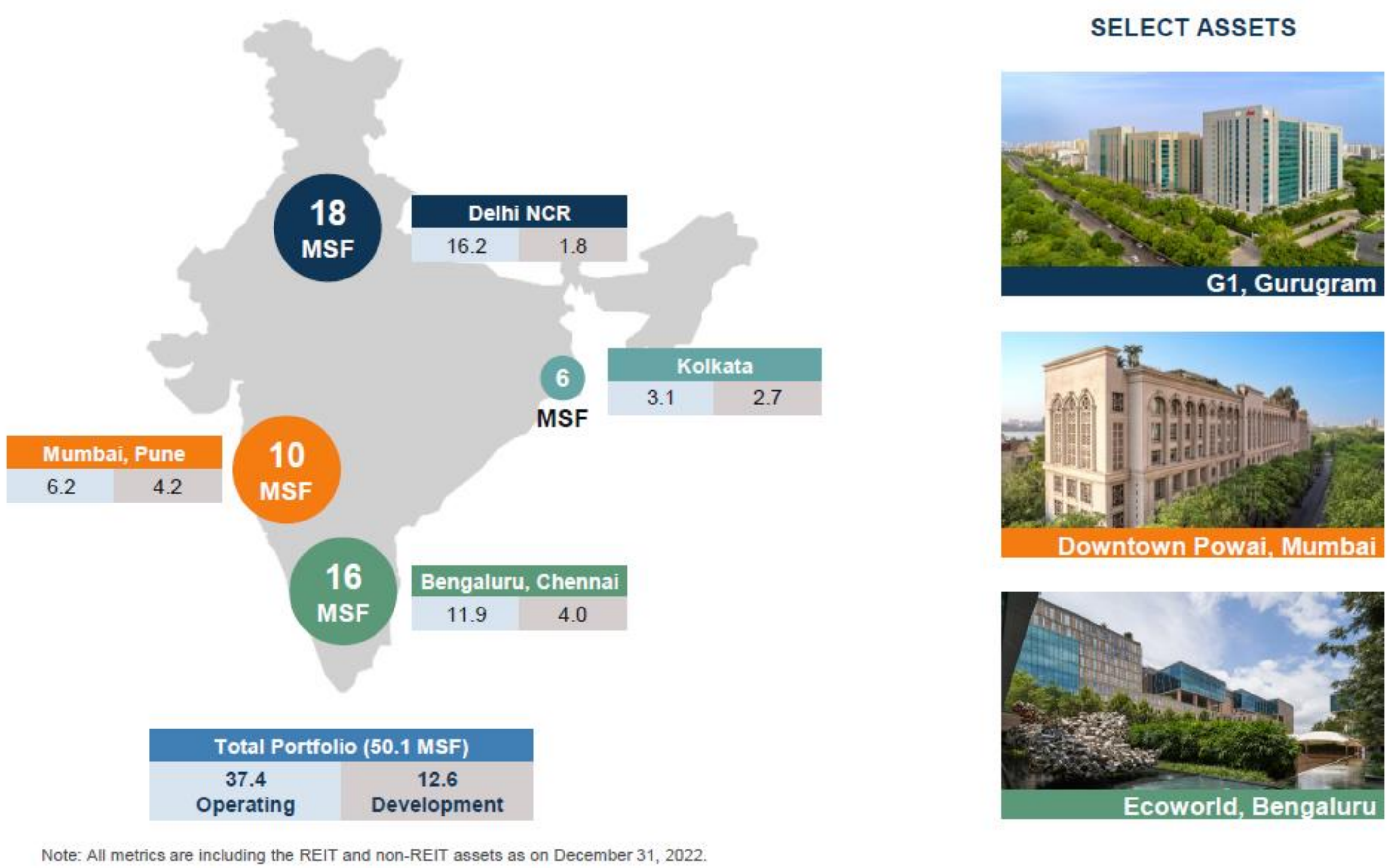
Company Overview

- BIRET is India's first and only 100% institutionally managed real estate investment trust. The portfolio comprises seven Grade-A office parks in campus format across strategic locations in India, i.e., Mumbai, Gurugram, Noida, and Kolkata.
- BIRET's portfolio (post Downtown Powai and G1 acquisition) comprises 25.2msf of leasable area (20.6msf completed, 0.6msf under construction and 4.0msf for future development.

Sponsors

- BSREP India Office Holdings V Pte. Ltd. - The Sponsor was incorporated in Singapore on 17th Jun'14 as a 'private company limited by shares.
- The Sponsor is part of the Brookfield Group (BAM; flagship entity of the Brookfield Group and a global alternative asset manager, currently listed on the NYSE and TSX). BAM, through the Brookfield Group, has a 120-year history as an owner and asset manager across a broad portfolio of real estate assets with a focus on property, infrastructure, renewable power and private equity.
- The Sponsor is the wholly owned subsidiary of BSREP India Holdings, a company incorporated in Singapore, which is a part of the Brookfield Strategic Real Estate Partners series of funds under the Brookfield Group.

Exhibit 17. Sponsor owns and manages one of the largest office portfolios in India



Source: Company, JM Financial

Brookprop Management Services Private Limited - The Manager

- Brookprop Management Services Private Limited, a part of the Brookfield Group, is a private limited company incorporated in India on 21st Mar'18 under the provisions of the Companies Act. Pursuant to the Investment Management Agreement, Brookprop

Management Services Private Limited has been appointed as the manager in accordance with the REIT Regulations.

- The Manager is a real estate services company providing real estate management services, including facility management and project delivery to the real estate assets held by the Brookfield Group across India.
- The operational services are currently managed by CIOP, where CIOP has an agreement with the Manager for providing such services to CIOP.
- The services rendered to the BIRET Portfolio, either directly by CIOP or through appointment of third-party service vendors by CIOP, comprise overall management and co-ordination of transition, supervision of operations and maintenance services, accounting services, procurement of materials and services.
- Fees: Manager is entitled to a yearly fee of 3% of the income from operating lease rentals for respective Candor Asset SPVs, payable on a monthly basis, exclusive of applicable taxes.

  Also, additional services may be provided by the Manager to CIOP for an additional fee as may be agreed upon between them.

  Manager shall also be entitled to be reimbursed by CIOP for expenses that are incurred by it in rendering the real estate operating services upon submission of all receipts of such expenses to CIOP. Manager is entitled to receive 1% of the NDCF as fees, as agreed under the Investment Management Agreement.

Exhibit 18. Brookfield REIT structure

Source: Company, JM Financial

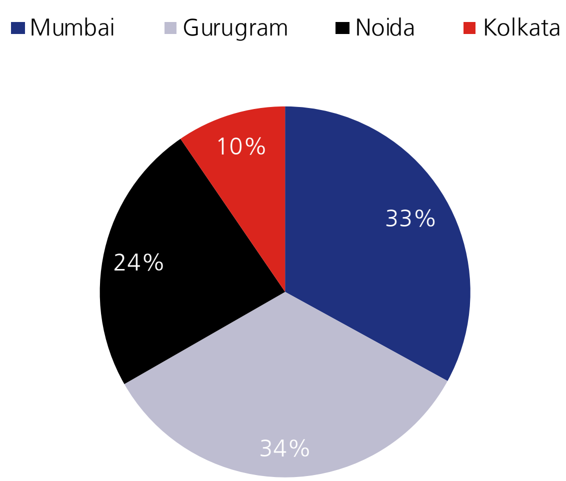
Brookfield India REIT Asset Portfolio

Exhibit 19. Post recent acquisition, Mumbai & Gurugram are the largest geographies for BIRET

Asset	Total Leasable Area (msf)	Completed Area (msf)	UC/Future Area (msf)	Occupied Area (msf)	Committed Occ.%)	WALE on area (years)	In-place Rent (INR psf)	Valuation (INRmn)			
								Completed	U/C & Future Dev.	Total Value	% of Total (%)
Kensington	1.6	1.6	-	1.2	79%	12.4	102.0	24,288	-	24,288	8.6%
Downtown, Powai	2.7	2.7	-	2.4	89%	3.6	164.0	67,506	1,494	69,000	24.4%
Mumbai	**4.3**	**4.3**	**-**	**3.6**	**86%**	**6.5**	**143.3**	**91,794**	**1,494**	**93,288**	**33.0%**
G2	4.0	3.9	0.1	3.3	84%	7.7	84.0	44,724	563	45,287	16.0%
G1	3.8	3.7	0.1	2.8	75%	6.5	75.0	49,554	610	50,164	17.7%
Gurugram	**7.8**	**7.6**	**0.2**	**6.1**	**80%**	**7.1**	**79.9**	**94,278**	**1,173**	**95,451**	**33.7%**
N1	2.8	2.0	0.9	1.9	94%	8.2	50.0	21,271	2,974	24,245	8.6%
N2	4.5	3.8	0.8	2.8	73%	7.7	57.0	40,493	2,403	42,896	15.2%
Noida	**7.3**	**5.8**	**1.7**	**4.7**	**81%**	**7.9**	**54.2**	**61,764**	**5,377**	**67,141**	**23.7%**
K1	5.8	3.1	2.7	2.6	83%	6.8	45.0	22,763	4,250	27,013	9.5%
Kolkata	**5.8**	**3.1**	**2.7**	**2.6**	**83%**	**6.8**	**45.0**	**22,763**	**4,250**	**27,013**	**9.5%**
Total	**25.2**	**20.6**	**4.6**	**16.9**	**82%**	**7.2**	**81.0**	**270,599**	**12,294**	**282,893**	**100.0%**

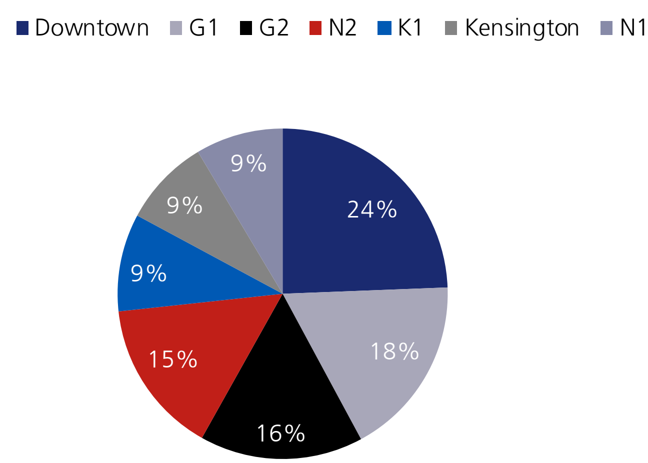
Source: Company, JM Financial

Exhibit 20. Gurugram is the largest market for BIRET



Source: Company, JM Financial

Exhibit 21. Downtown Powai contributes ~25% of GAV



Source: Company, JM Financial

Management Profile

Exhibit 22. Experienced management team

Key Personnel	
Alok Aggarwal, Chief Executive Officer of Manager	• Holds a bachelor's degree in technology in civil engineering from the Indian Institute of Technology, Delhi and has obtained a post graduate degree in management from the Indian School of Business, Hyderabad. • Has over 30 years of experience in project management, business development and overseeing operations and investments of entities in the real estate sector. • Has prior experience at Milestone Capital Advisors Limited, Sun-Ares India Real Estate Advisors Private Limited, Hindustan Prefab Limited, DLF Universal Limited, Delta Mechcons (India) Limited, TCG Urban Infrastructure Holdings Limited and Mahindra Gesco Developers Limited.
Sanjeev Kumar Sharma Chief Financial Officer of Manager	• Holds a bachelor's degree in commerce from the University of Delhi and is a chartered accountant with the Institute of Chartered Accountants. • Prior experience at Apollo Tyres Limited, Galaxy Mercantile Private Limited (currently owned by Embassy Office Parks REIT), JK Paper Limited, ICICI Bank Limited, Quippo Construction Equipment Limited and BPTP Limited • Has over 29 years of experience in finance, accounts and taxation.
Shantanu Chakraborty, Regional Head – South	• Holds a bachelor's degree in architecture from the School of Planning and Architecture, New Delhi and a master's degree in business administration from the Narsee Monjee Institute of Management Studies, Mumbai • Prior to joining Brookfield, has worked at AIG Global Real Estate India Advisors Private Limited, Jones Lang LaSalle Property Consultants (India) Private Limited and Mathur & Kapre Associates Private Limited (an architectural firm) • Has over 20 years of experience in real estate investing, architecture and real estate consulting
Reema Kundnani Regional Head – West & Head – Marketing, Branding & Commn.	• Holds a bachelor's degree in in engineering from Thadomal Shahani Engineering College Mumbai and a certificate in Global Business Leadership from Harvard Business School Publishing and U21 • Leads the western region commercial leasing portfolio, driving client relationships, transaction management, facility management, design and development. • With over 25 years of experience, Ms. Kundnani has been recognized as the 'Most Influential Marketing Professional in Real Estate Sector' and one of the 50 Most Talented CMOs of India by the CMO Council
Saurabh Jain, Company Secretary & Compliance Officer	• Holds a B. Com degree from Punjab University and a Bachelor's degree in law from Ch. Charan Singh University, Meerut and a qualified Company Secretary • Prior to joining Brookfield, he worked with Lumax Industries Limited, Escorts Limited and GMR Group - Delhi International Airport Limited and GMR Airports Limited in the capacity of Company Secretary • Has over 18 years of experience in corporate law, securities law, merger amalgamation, acquisition, fundraising, etc.

Source: Company, JM Financial

Exhibit 23. Board of Directors

Key Personnel	
Ankur Gupta, Non-Executive Director	• Holds a master's degree in business administration from Columbia Business School and a bachelor's degree in technology from the Indian Institute of Technology, Bombay • Currently, the Managing Partner and Head of India and Middle East for Brookfield's Real Estate Group and Country Head for Brookfield in India • Prior to joining Brookfield in 2012, Mr. Gupta worked for a leading real estate development firm
Anuj Ranjan Non-Executive Director	• Holds a bachelor's degree in science from the University of Alberta and an MBA from the Richard Ivey School of Business • Currently, the Managing Partner, Global Head of Business Development, Head of Europe and Asia-Pacific Private Equity, and CEO of South Asia and Middle East for Brookfield Asset Management. • Has been in Brookfield since 2006, and has held various positions in the organization and its affiliates, including mergers and acquisitions, private equity and real estate
Jan Sucharda, Non-Executive Director	• Has completed his master's degree in business administration from York University, Toronto, Ontario and bachelor's degree in Applied Science (Engineering) from Queen's University, Kingston, Ontario. • Joined Brookfield in 2005 and has held several leadership roles across the organization including Global President and Chief Operating Officer, Office Division, Brookfield Properties and President and CEO of Brookfield Canada Office Properties. • Prior to joining Brookfield, he worked at O&Y Properties and O&Y REIT, as well as a major financial institution and a Toronto-based construction management company.

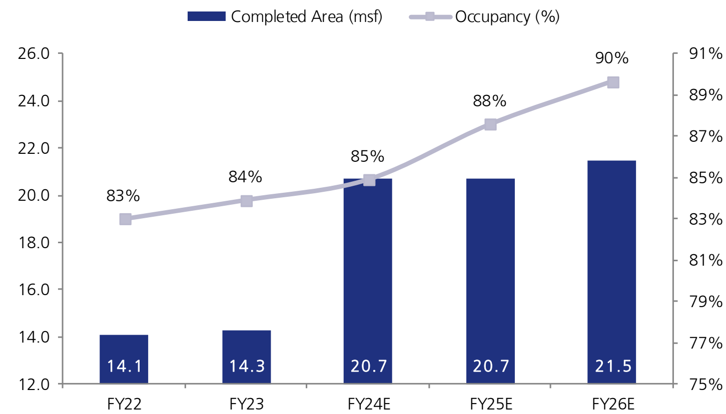
Shailesh Haribhakti Independent Director	• Has had a five-decade career as a chartered and cost accountant, certified internal auditor, financial planner and a fraud examiner. • Independent director at some of the country's most preeminent organizations including Blue Star Limited, Bajaj Electricals Limited, Discover Journeys Private Limited, Future Generali India Life Insurance Company Ltd
Akila Krishnakumar, Independent Director	• Holds a master's degree in management Studies from the Birla Institute of Technology & Science at Pilani, Rajasthan • Previously the President – Global Technology and Country Head – India for SunGard Solutions Private Limited. • Experienced professional with a long and eminent industry standing, including over 30 years in the field of technology
Rajnish Kumar, Independent Director	• Has done M.Sc. in Physics from Meerut University and is also a Certified Associate of Indian Institute of Bankers (CAIIB) • Former chairman of State Bank of India and completed his three-year term as chairman in October 2020 • Currently serving as an Independent Director on the boards of many prestigious companies like HSBC Asia Pacific, L&T Infotech, Hero Motocorp Limited and Ambuja Cement Limited

Source: Company, JM Financial

Financials

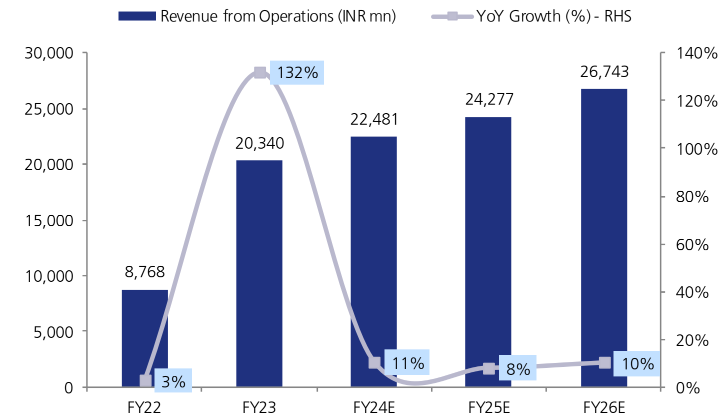
- We estimate Rentals/NOI FY23-FY26E CAGR of 5.8%/3.7% respectively. As income support wanes, NOI margins should revert to lower levels, resulting in a lower increase in NOI.

Exhibit 24. Occupancies to start improving…



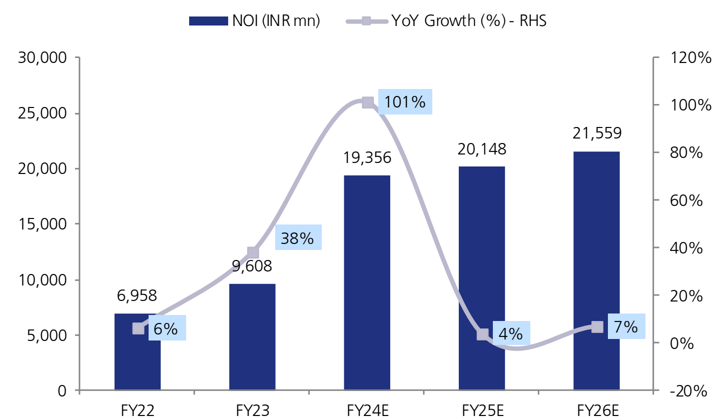
Source: Company, JM Financial

Exhibit 25. …resulting in revenue growth



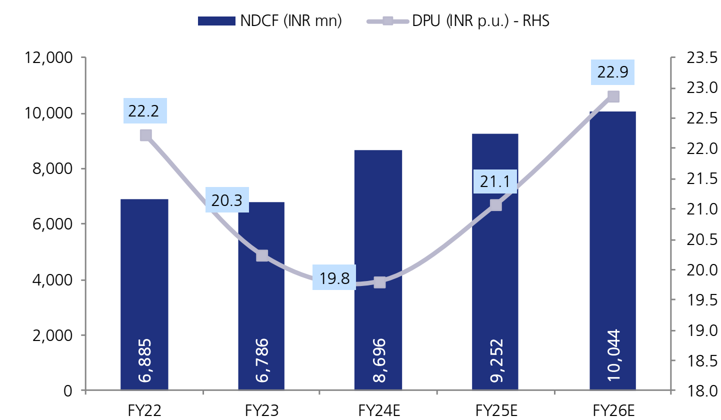
Source: Company, JM Financial

Exhibit 26. NOI growth due to addition of Kairos and G1



Source: Company, JM Financial

Exhibit 27. Healthy distributions



Source: Company, JM Financial

Exhibit 28. Stable operating performance

Particulars (INR mn unless specified)	FY21	FY22	FY23	FY23 (Pro-Forma)	FY24E	FY25E	FY26E	FY24-26E CAGR (%)
Completed Area	10.3	14.1	14.3	20.6	20.7	20.7	21.5	
Facility Rentals	6,100	6,476	8,268	NA	16,955	18,309	20,090	5.8%
Growth (%)	NM	6%	28%	NM	105%	8%	10%	
Revenue from Operations	8,532	8,768	11,970	20,340	22,481	24,277	26,743	6.0%
Growth (%)	-11%	3%	37%	NM	88%	8%	10%	
NOI	6,552	6,958	9,608	NA	19,356	20,148	21,559	3.7%
Growth (%)	NM	6%	38%	NM	101%	4%	7%	
NOI Margin (%)	77%	79%	80%	NM	86%	83%	81%	
EBITDA	6,234	6,183	8,156	14,536	18,528	19,292	20,619	3.6%
Growth (%)	5%	-1%	32%	NM	127%	4%	7%	
EBITDA Margin (%)	73%	71%	68%	71%	82%	79%	77%	
NDCF	NM	6,885	6,786	NA	8,696	9,252	10,044	4.9%

Source: Company, JM Financial
Note: NDCF adjusted for 50% share of BIRET in Kairos and G1

Exhibit 29. Financial snapshot

INR mn	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	FY23	FY24E	FY23-24E YoY(%)
Net Sales	3,141	2,910	8%	3,024	4%	20,340	22,481	11%
Cost of Sales	14	7	103%	20	-27%	64	65	2%
Gross Margin (%)	100%	100%	-21bps	99%	19bps	100%	100%	2bps
Employee Expenses	91	84	8%	94	-4%	467	491	5%
Other Expenses	925	809	14%	841	10%	5,273	3,569	-32%
EBITDA	2,111	2,010	5%	2,069	2%	14,536	18,356	26%
EBITDA Margin (%)	67.2%	69.1%	-185bps	68.4%	-120bps	71.5%	81.7%	1019bps
Depreciation	1,197	691	73%	705	70%	3,855	5,574	45%
Interest Costs	1,202	959	25%	1,146	5%	10,773	8,587	-20%
Other Income	66	97	-32%	53	25%	511	0	-100%
PBT	-222	458	-148%	271	-182%	420	4,195	899%
Tax	48	-13	NM	-57	NA	-7	89	-1433%
Share of Minority	0	0	NM	0	NA	-443	-243	NM
PAT	-270	471	-157%	327	-183%	869	4,349	400%
NDCF	**1,644**	**1,719**	**-4%**	**1,672**	**-2%**	**6,786**	**8,696**	**28%**

Source: Company, JM Financial
Note: Annual numbers are for the pro-forma portfolio

Exhibit 30. NDCF walkdown

Particulars (INR mn)	1QFY23	2QFY23	3QFY23	4QFY23	FY23	1QFY24
Income from Operating Lease Rentals	**2,034**	**2,056**	**2,068**	**2,109**	**8,268**	**2,113**
CAM / Other Revenue	876	980	931	915	3,702	1,028
Revenue from Operations	**2,910**	**3,036**	**2,999**	**2,999**	**11,970**	**3,141**
CAM / Other Direct Expenses	(742)	(802)	(778)	(763)	(3,085)	(866)
Income support	178	179	183	183	722	178
NOI	**2,346**	**2,413**	**2,405**	**2,444**	**9,608**	**2,453**
Property Management Fees	(58)	(60)	(62)	(58)	(238)	(62)
Net Other Income/(Expenses)	30	5	3	(56)	(18)	(16)
EBITDA	**2,318**	**2,357**	**2,345**	**2,331**	**9,352**	**2,374**
Cash Taxes (Net of Refund)	95	(33)	309	(112)	259	(167)
Working Capital and Ind-AS Adjustments	131	70	2	74	277	(12)
Repayment of Tenant Deposits	(131)	(136)	(59)	(286)	(286)	(181)
Cashflow from Operations	**2,413**	**2,258**	**2,597**	**2,007**	**9,970**	**2,014**
Capex	(370)	(284)	(356)	(304)	(1,314)	(429)
EDC Refund	-	-	374	-	374	-
Net Financing Activities	601	649	389	972	2,610	1,160
Net Debt Drawdown for N2 Acquisition	-	-	-	-	-	-
Addition of Shareholder Debt in N2/K1	335	-	280	80	695	600
Non Refundable Advances	85	68	-	68	220	-
Interest Cost on External Debt	(902)	(1,024)	(1,073)	(1,082)	(4,081)	(1,132)
NDCF (SPV Level)	**2,162**	**1,667**	**2,211**	**1,741**	**7,780**	**2,213**
Interest on Shareholder Debt	860	825	816	813	3,314	800
Dividends	22	30	35	-	87	-
Repayment of Shareholder Debt	**1,196**	**886**	**1,195**	**990**	**4,267**	**1,465**
Equity raise at Brookfield REIT level	-	-	-	-	-	-
Cash Consideration for N2 Acquisition	-	-	-	-	-	-
Investment of Shareholder Debt in N2	(335)	-	(280)	(80)	(695)	(600)
REIT Expenses	(24)	(25)	(88)	(50)	(187)	(21)
NDCF (REIT Level)	**1,719**	**1,717**	**1,678**	**1,672**	**6,786**	**1,644**
NDCF per Unit (REIT Level)	5.1	5.1	5.0	5.0	20.3	3.9
Distribution per Unit (REIT Level)	**5.1**	**5.1**	**5.0**	**5.0**	**20.2**	**3.9**

Source: Company, JM Financial
Note: NDCF walkdown only for the portfolio as on 30th Jun'23 (not accounting for acquisitions).

Valuation

- We assume 12% WACC and use 8.0% terminal cap rate to arrive at a Sep'24 NAV of INR 280 per share (25.8% total returns potential; 17.4% capital appreciation and 8.3% NDCF yield).

Exhibit 31. Sep'24 SOTP-based TP

SOTP	Sep'24
Enterprise Value (Rs mn)	**255,321**
Less: Net debt	95,797
Adj. for GIC stake	34,539
Equity Value (INR mn)	**124,895**
Shares Outstanding (mn)	**439**
Target Price (INR)	**280**
CMP	**238**
Upside (%)	17%

Source: Company, JM Financial

Exhibit 32. Total expected returns

Total Return till Sep'24	(%)
Capital Appreciation	17.4%
Dividend Received	8.3%
Total	**25.8%**

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	8,768	20,340	22,481	24,277	26,743
Sales Growth	2.8%	132.0%	10.5%	8.0%	10.2%
Other Operating Income	0	0	0	0	0
Total Revenue	**8,768**	**20,340**	**22,481**	**24,277**	**26,743**
Cost of Goods Sold/Op. Exp	24	64	65	66	68
Personnel Cost	197	467	491	515	541
Other Expenses	2,364	5,273	3,569	4,589	5,719
EBITDA	**6,183**	**14,536**	**18,356**	**19,107**	**20,415**
EBITDA Margin	70.5%	71.5%	81.7%	78.7%	76.3%
EBITDA Growth	-27.5%	135.1%	26.3%	4.1%	6.8%
Depn. & Amort.	2,085	3,855	5,574	6,041	6,646
EBIT	4,098	10,681	12,782	13,066	13,769
Other Income	224	511	0	0	0
Finance Cost	2,081	10,773	8,587	8,733	9,146
PBT before Excep. & Forex	2,242	420	4,195	4,333	4,623
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,242	420	4,195	4,333	4,623
Taxes	-221	-7	89	98	101
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	-443	-243	-43	157
Reported Net Profit	2,463	869	4,349	4,278	4,365
Adjusted Net Profit	**2,463**	**869**	**4,349**	**4,278**	**4,365**
Net Margin	28.1%	4.3%	19.3%	17.6%	16.3%
Diluted Share Cap. (mn)	335.1	335.1	439.1	439.1	439.1
Diluted EPS (INR)	**7.3**	**2.6**	**9.9**	**9.7**	**9.9**
Diluted EPS Growth	-60.8%	-64.7%	281.8%	-1.6%	2.0%
Total Dividend + Tax	6,885	6,786	8,068	8,437	9,048
Dividend Per Share (INR)	20.5	20.3	18.4	19.2	20.6

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	88,821	77,754	102,866	97,849	92,327
Share Capital	89,867	86,557	110,607	110,607	110,607
Reserves & Surplus	-1,046	-8,803	-7,741	-12,758	-18,280
Preference Share Capital	0	0	0	0	0
Minority Interest	0	-5,583	-5,826	-5,869	-5,712
Total Loans	51,655	123,132	103,345	107,585	114,160
Def. Tax Liab. / Assets (-)	-3,755	-1,174	-1,233	-1,294	-1,359
Total - Equity & Liab.	**136,721**	**194,128**	**199,151**	**198,270**	**199,415**
Net Fixed Assets	136,320	196,173	197,223	195,222	194,951
Gross Fixed Assets	138,161	192,363	198,986	203,027	209,401
Intangible Assets	0	5,651	5,651	5,651	5,651
Less: Depn. & Amort.	1,841	1,841	7,415	13,456	20,102
Capital WIP	0	0	0	0	0
Investments	0	0	0	0	0
Current Assets	7,782	12,288	17,641	20,274	23,352
Inventories	0	0	0	0	0
Sundry Debtors	225	393	412	433	455
Cash & Bank Balances	2,044	3,320	8,467	10,869	13,690
Loans & Advances	0	0	0	0	0
Other Current Assets	5,514	8,575	8,761	8,972	9,207
Current Liab. & Prov.	7,382	14,333	15,712	17,226	18,888
Current Liabilities	2,852	4,901	5,337	5,814	6,336
Provisions & Others	4,530	9,432	10,374	11,411	12,552
Net Current Assets	400	-2,045	1,929	3,048	4,464
Total – Assets	**136,721**	**194,128**	**199,151**	**198,270**	**199,415**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	2,242	1,404	4,195	4,333	4,623
Depn. & Amort.	2,085	3,855	5,574	6,041	6,646
Net Interest Exp. / Inc. (-)	1,849	4,296	8,587	8,733	9,146
Inc (-) / Dec in WCap.	97	886	1,114	1,221	1,341
Others	-39	-258	-243	-43	157
Taxes Paid	-175	259	-89	-98	-101
Operating Cash Flow	**6,059**	**10,442**	**19,139**	**20,186**	**21,812**
Capex	-916	-940	-972	-4,040	-6,375
Free Cash Flow	5,143	9,502	18,166	16,146	15,437
Inc (-) / Dec in Investments	-13,208	0	0	0	0
Others	90	159	0	0	0
Investing Cash Flow	**-14,034**	**-780**	**-972**	**-4,040**	**-6,375**
Inc / Dec (-) in Capital	3,703	-4	24,050	0	0
Dividend + Tax thereon	-5,148	-6,802	-8,696	-9,252	-10,044
Inc / Dec (-) in Loans	10,283	2,833	-19,787	4,240	6,575
Others	-2,164	-4,412	-8,587	-8,733	-9,146
Financing Cash Flow	**6,674**	**-8,385**	**-13,019**	**-13,744**	**-12,615**
Inc / Dec (-) in Cash	**-1,300**	**1,276**	**5,147**	**2,402**	**2,821**
Opening Cash Balance	3,344	2,044	3,320	8,467	10,869
Closing Cash Balance	2,044	3,320	8,467	10,869	13,690

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	28.1%	4.3%	19.3%	17.6%	16.3%
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	1.4	2.1	2.3	2.1	2.2
RoE	2.9%	1.0%	4.8%	4.3%	4.6%

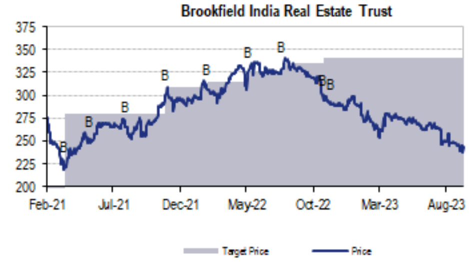
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	265.1	232.0	234.3	222.8	210.3
ROIC	3.8%	6.6%	6.5%	6.7%	7.2%
ROE	2.9%	1.0%	4.8%	4.3%	4.6%
Net Debt/Equity (x)	0.6	1.5	0.9	1.0	1.1
P/E (x)	33.2	94.1	24.6	25.0	24.5
P/B (x)	0.9	1.1	1.0	1.1	1.2
EV/EBITDA (x)	25.3	15.2	10.7	10.4	9.9
EV/Sales (x)	17.9	10.9	8.7	8.2	7.5
Debtor days	9	7	7	7	6
Inventory days	0	0	0	0	0
Creditor days	90	66	97	82	70

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Mar-21	Buy	280	
22-May-21	Buy	280	-0.1
12-Aug-21	Buy	280	0.2
11-Nov-21	Buy	310	10.5
15-Feb-22	Buy	315	1.7
19-May-22	Buy	325	3.3
4-Aug-22	Buy	335	3.0
7-Nov-22	Buy	340	1.5
24-Nov-22	Buy	340	0.0

Recommendation History



JM FINANCIAL

Embassy Office Parks REIT | BUY

Largest REIT in Asia

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We acknowledge the support of Prithvi Shah in the preparation of this report

Embassy Office Parks REIT (Embassy) owns Asia's largest office portfolio on a leasable area basis, which is currently at 45.0msf (34.3msf operational, development pipeline of 7.9msf & 2.8msf of forthcoming projects). Its office assets are majorly located in the high absorption office markets of India. It has a quality portfolio: nearly half of its tenants are Fortune 500 companies (47%), 81% are MNCs and weighted average lease expiry (WALE) is 6.6 years. The portfolio growth builds reliably from lease-up of vacant area, contractual escalations, MTM rental revisions and new developments. We expect net operating income (NOI) to accumulate at 10.9% CAGR over FY23-26E. With a 12-month dividend yield of 7.1% and a TSR of 18.6% to our DCF-based 1-year target price of INR 340, we initiate with BUY.

- **Largest office portfolio in Asia:** Embassy is the owner of Asia's largest office portfolio, which is currently at 45msf. Its office assets are majorly located in high absorption office markets: Bengaluru, Mumbai, Pune, and Noida. Around 81% of its gross rentals come from multinational companies and 47% come from Fortune 500 companies. The portfolio is pretty stable with a WALE of 6.6 years, as tenant turnover has been limited. Steady demand helps in consistent occupancy levels (pre-Covid levels of 90%) and healthy growth in in-place rentals.

- **High quality, diversified occupier base:** Embassy has a highly diversified tenant base with the largest tenant contributing only 6.77% of the total gross rentals and the top 10 occupiers accounting for ~37%. As of 1QFY24, the company has 234 occupiers where multinationals contribute 81% of the gross rentals while Fortune 500 tenants contribute 47%. In terms of sector, technology accounts for 36% of gross rentals followed by financial services accounting for 21%. In terms of geographical exposure, two-thirds of the completed leasable area is located in Bengaluru (68% by GAV).

- **Maximum value derived from Bengaluru, the largest office market:** Bengaluru is India's largest office market and houses ~27% of India's office premises (Source: C&W). The city is now the largest market for office space absorption not just in India but across the Asia Pacific. It is the most preferred market for IT and ITES players, and especially global capability centres (GCCs), housing ~25% of GCCs in India. Post Covid-19, vacancy increased considerably at its trophy property in Bengaluru (Embassy Manyata). As on 30th Jun'23, occupancy at Manyata has recovered to 91% (87% last year) as the company refurbished ~0.6msf and leased 52% of this area, at a re-leasing spread of 212%.

- **Initiate with BUY, TP of INR 340**: The growth drivers for Embassy are expansion of operational area (6.9msf to be commissioned by FY26E), contractual rent escalations (12%-15% increases every 3 years), revsersion of rentals to market levels (11-29% higher), and lease-up of vacant offices. We estimate an NOI CAGR of 10.9% over FY23-26E. Accordingly, we estimate DPU to grow at FY24-FY26E CAGR of 6.3%. We initiate coverage with BUY rating and a DCF-based target of INR 340 per unit. We estimate Embassy to distribute INR 20.6 per unit of DPU, reflecting a total 1 year return of 18.6%.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	340
Upside/(Downside)	11.9%
Previous Price Target	0
Change	NA

Key Data – EMBASSY IN	
Current Market Price	INR304
Market cap (bn)	INR288.1/US$3.5
Free Float	100%
Shares in issue (mn)	948.2
Diluted share (mn)	948.2
3-mon avg daily val (mn)	INR157.5/US$1.9
52-week range	356/288
Sensex/Nifty	66,009/19,674
INR/US$	82.9

Price Performance			
%	1M	6M	12M
Absolute	-0.9	-0.4	-14.3
Relative*	-2.6	-13.2	-24.5

* To the BSE Sensex

Financial Summary (INR mn)					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	27,346	31,643	33,907	37,357	42,256
Sales Growth (%)	28.4	15.7	7.2	10.2	13.1
EBITDA	22,981	25,444	29,357	32,215	36,010
EBITDA Margin (%)	77.6	74.4	78.4	78.4	77.7
Adjusted Net Profit	8,884	5,060	9,080	10,188	12,514
Diluted EPS (INR)	9.4	5.3	9.6	10.7	13.2
Diluted EPS Growth (%)	11.4	-43.0	79.5	12.2	22.8
ROIC (%)	4.0	2.8	4.7	5.3	6.3
ROE (%)	3.4	2.0	3.8	4.5	5.8
P/E (x)	32.4	57.0	31.7	28.3	23.0
P/B (x)	1.1	1.2	1.2	1.3	1.4
EV/EBITDA (x)	17.6	16.8	14.9	13.9	12.7
Dividend Yield (%)	7.2	7.1	6.8	7.5	8.6

Source: Company data, JM Financial. Note: Valuations as of 22/Sep/2023

Investment Rationale

Largest office portfolio in Asia

- Embassy is the owner of Asia's largest office on a leasable area basis, which is currently at 45.0msf (34.3msf operational, development pipeline of 7.9msf & 2.8msf of forthcoming projects). Its office assets are majorly located in high absorption office markets of India: Bengaluru, Mumbai, Pune, and Noida. Two-thirds of the completed leasable area is located in Bengaluru (68% by GAV), India's largest office market.

Exhibit 1. Embassy REIT is the largest office portfolio in Asia

Particulars	Embassy	Mindspace	Brookfield	DCCDL (Office)	CLINT (Ascendas)
Leasable Area (msf)	45.0	32.0	25.2	41.0	29.9
Completed Area (msf)	34.3	25.9	20.6	35.7	19.2
Under construction (msf)	7.9	2.5	0.7	5.3	9.9
Proposed development (msf)	2.8	3.6	3.9	n/a	0.8
Leased area (msf)	29.2	23.0	16.9	31.5	17.5
Occupancy (%)	85%	89%	82%	88%	91%
Vacant Area (msf)	5.1	2.9	3.7	4.2	1.7
GAV (INR mn)	514,141	280,265	163,729	517,220	150,412
Completed as % of total (By GAV)	88%	93%	96%	93%	n/a
U/C/Planned % of total (By GAV)	12%	7%	4%	7%	n/a

Source: Company, JM Financial

Exhibit 2. Quality commercial portfolio

Commercial Assets	Leasable Area (msf)			WALE	Occupancy	Rent (INR psf pm)			GAV	
	Completed	Development	Total	(yrs)	(%)	In-Place	Market	MTM (%)	INR mn	% of total*
Embassy Manyata	11.4	3.9	15.2	6.5	91.0%	76	93	22%	185,965	36%
Embassy TechVillage	7.3	2.3	9.6	9.1	97.0%	77	94	22%	122,224	24%
Embassy Golflinks	3.1	-	3.1	6.2	95.0%	132	155	17%	34,996	7%
Embassy One	0.3	-	0.3	8.2	60.0%	144	147	2%	4,558	1%
Embassy Business Hub	0.0	1.4	1.4	-	-	-	67	0%	3,751	1%
Bengaluru Sub-total	**22.1**	7.6	**29.6**	7.3	**94.0%**	**85**	**103**	**20%**	**351,494**	**68%**
Express Towers	0.5	-	0.5	3.9	82.0%	284	275	-3%	18,252	4%
Embassy 247	1.2	-	1.2	3.5	95.0%	111	112	1%	18,684	4%
FIFC	0.4	-	0.4	3.2	91.0%	300	280	-7%	13,941	3%
Mumbai Sub-total	**2.1**	-	**2.1**	3.5	**91.0%**	**181**	**176**	**-3%**	**50,877**	**10%**
Embassy Techzone	3.0	2.4	5.5	4.1	65.0%	54	48	-10%	22,845	4%
Embassy Quadron	1.9	-	1.9	4.9	50.0%	53	48	-9%	13,227	3%
Embassy Qubix	1.5	-	1.5	4.8	91.0%	43	48	11%	9,718	2%
Pune Sub-total	**6.4**	2.4	**8.9**	4.5	**66.0%**	**50**	**48**	**-4%**	**45,790**	**9%**
Embassy Oxygen	2.5	0.7	3.3	9.1	67.0%	54	48	-11%	22,809	4%
Embassy Galaxy	1.4	-	1.4	6.4	60.0%	46	47	3%	9,526	2%
Noida Sub-total	**3.9**	0.7	**4.7**	8.3	**65.0%**	**51**	**48**	**-7%**	**32,335**	6%
Total (Office)	**34.3**	10.7	**45.0**	6.6	**85.0%**	**82**	**95**	**15%**	**480,496**	**93%**

Source: Company, JM Financial
Note: * - Total portfolio GAV is INR 514,141mn

Exhibit 3. Hotels and solar park portfolio

Hotels and Solar Park	Keys / MW			Occupancy (%)	GAV	
	Completed	Development	Total		INR mn	% of total*
Hotels						
Four Seasons at Embassy One	230	-	230	36.0%	7,939	2%
Hilton at Embassy Golflinks	247	-	247	63.0%	4,762	1%
Hilton & Hilton Garden Inn at Embassy Manyata (5 & 3 star)	619	-	619	54.0%	11,667	2%
Hilton & Hilton Garden Inn at Embassy TechVillage (5 & 3 star)	-	518	518	-	763	0%
Total (Hospitality)	**1,096**	**518**	**1,614**	-	**25,131**	**5%**
Solar Park						
Embassy Energy	100	-	100	-	8,514	2%
Total (Solar Power)	100	-	100	-	**8,514**	**2%**

Source: Company, JM Financial
Note: * - Total portfolio GAV is INR 514,141mn

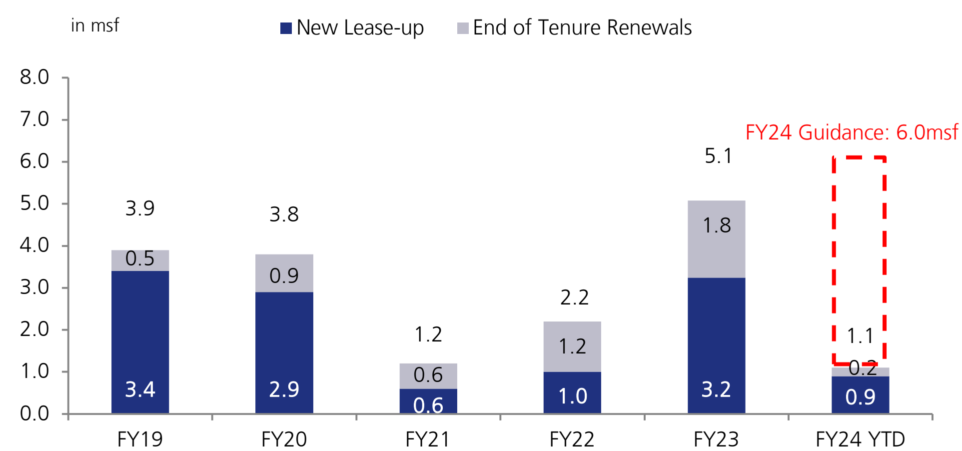
Exhibit 4. Leasing history

Particulars (msf)	FY20	FY21	FY22	FY23	1QFY24
Total Lease-up	**2.9**	**1.2**	**2.2**	**5.1**	**1.1**
Number of deals	-	-	49	100	22
New Lease-up	2.4	0.6	1.0	2.0	0.4
Re-leased Area	1.1	0.5	0.8	1.6	0.4
Re-leasing spread (%)	53%	18%	27%	17%	68%
Number of deals	-	-	33	71	13
Renewed Area	0.6	0.6	1.2	1.8	0.2
Renewal spread (%)	19%	13%	13%	16%	15%
Number of deals	-	-	16	24	7
Pre-Leased Area	-	-	-	1.2	0.4
Number of deals	-	-	-	5	2

Source: Company, JM Financial

Good momentum in gross leasing levels as demand normalises post Covid-19 disruptions

Exhibit 5. Management guidance of new leasing volumes: 6msf in FY24



Source: Company, JM Financial

Management expects new leasing to touch ~6msf, implying nominal growth from last year.

- Embassy owns and operates a commercial office portfolio that serves as essential corporate infrastructure to global occupiers, including many technology companies. The portfolio has seen a strong trend of expansionary demand, with over 80% of the new/pre-leasing by existing occupiers and 71% by global captive centres (GCCs) across various sectors (as of 1QFY24).
- Significant MTM post rental escalations ensure stickiness of occupancies as the replacement cost for re-locations is significant (27% blended MTM).

Exhibit 6. Rental escalations with significant MTM opportunity

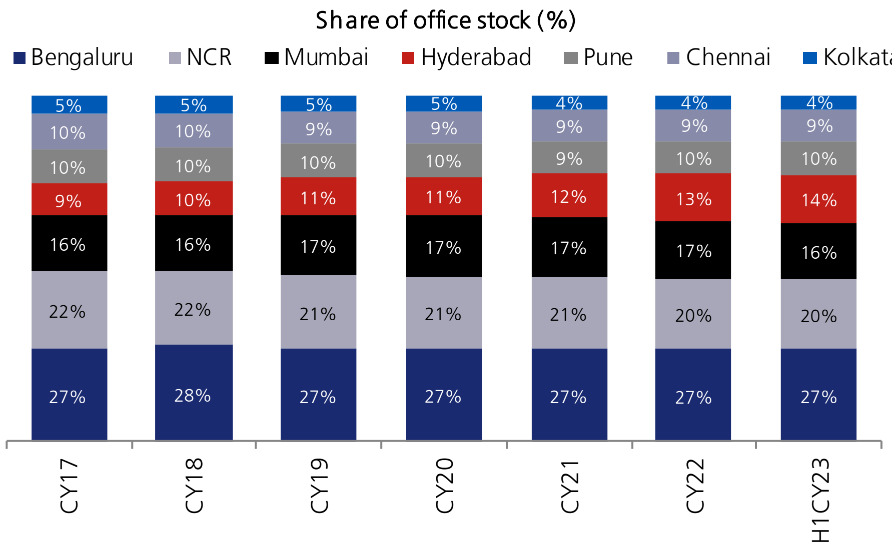
Particulars (%)	FY24E	FY25E	FY26E	FY27E
Rent Escalations Due	14%	14%	14%	15%
Post-escalation MTM Opportunity	19%	4%	NM	28%

Source: Company, JM Financial

Bengaluru is Asia's and India's leading office market

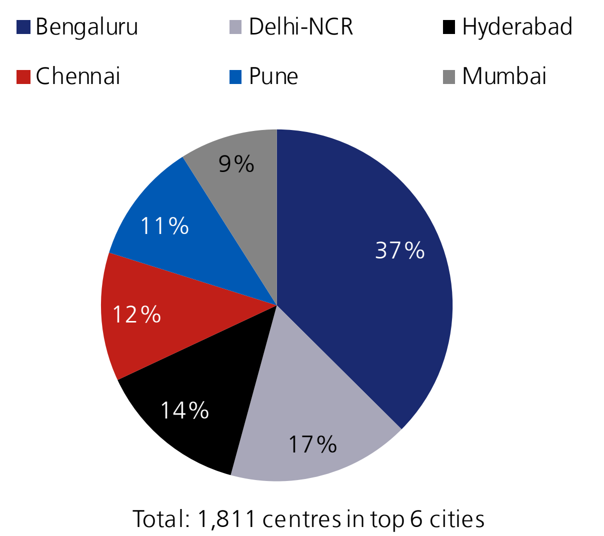
- Bengaluru is India's largest office market and houses ~27% of India's office premises (Source: C&W). The city is now the largest market for office space absorption not just in India but across the Asia Pacific. It is the most preferred market for IT and ITES players, and especially GCCs, housing ~25% of GCCs in India.
- Embassy owns five commercial assets in Bengaluru, including four business parks and one mixed-use office. It includes Embassy Manyata and Embassy TechVillage, which are the two largest business parks, both in terms of area and value. Embassy owns 50% economic interest in Golf Links Software Parks (GLSP) SPV, which owns the third business park, i.e., Embassy GolfLinks. The other assets are Embassy One, which is a mixed-use development with high-end offices and a 230-key hotel, and Embassy Business Hub, which is a 2.4msf office asset recently acquired by the REIT.

Exhibit 7. Bengaluru is the largest market in India



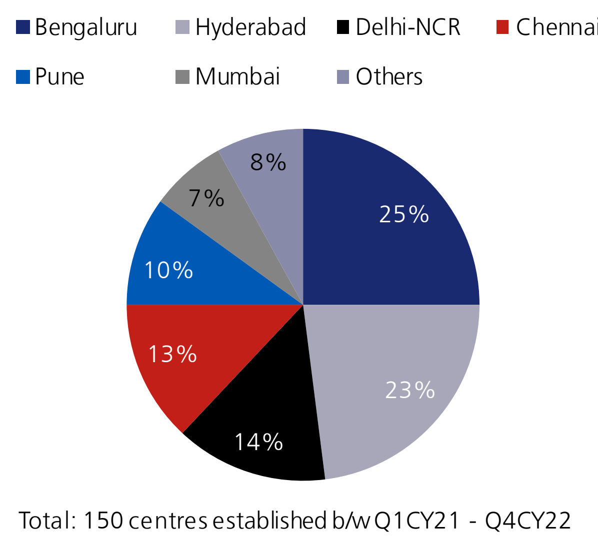
Source: Cushman and Wakefield, JM Financial

Exhibit 8. Bengaluru is the leading GCC destination…



Source: Cushman and Wakefield, JM Financial

Exhibit 9. …and has retained market share in new centres



Source: Cushman and Wakefield, JM Financial

- Embassy Manyata: Located along ORR Nagavara in North Bengaluru, Manyata is the second largest commercial office asset in India. It is a landmark asset in Bengaluru with an operational area of 11.4msf and spread over a land area of over 121 acres. The dual-branded hotel complex has 619 keys - Hilton's 266-key flagship-branded hotel and 353-key Hilton Garden Inn Bengaluru Embassy Manyata Business Park, and 60,000 square feet of convention space including a 13,000 square feet pillarless grand ballroom that can accommodate up to 1,500 people.

  Embassy has invested over INR 4bn in improving the infrastructure around the office park. In FY22, it opened a 1 km flyover from Veeranna Palaya towards Hebbal to reduce traffic moving towards the city and also provide an easier commute to the airport. The company has also completed refurbishment of two buildings totaling 0.6msf and leased 52% of the same at a leasing spread of 212%. As of 1QFY24, Manyata has 91% occupancy and 22% MTM potential.

- Embassy TechVillage (ETV): ETV is located along ORR near Bellandur, Bengaluru. The office park has a land area of 84 acres and a total development potential of 9.6msf. Strategically located in the heart of Bangalore's IT corridor, ETV is well-connected with the IT hubs of Whitefield and Electronic City as well as all parts of the city. ETV has 97% occupancy and 24% MTM potential, as of 1QFY24. The property also recently opened its sprawling 8-acre Central Garden, which includes one of the biggest sports zones in Bengaluru, multiple retail, F&B and break-out space. It also has an upcoming 518-key dual-branded Hilton Hotel on the campus.

- Embassy GolfLinks (EGL): EGL is a 4.5msf office asset (3.1msf owned by the HoldCo) spanning across 22 towers, located along Intermediate Ring Road in Domlur, Bengaluru. Embassy owns 50% stake in the 3.1mn sq.ft. leasable area held by the GLSP (holding company). As of 1QFY24, Golf Links has 95% occupancy and 17% MTM potential. EGL also has the 250-room 5-star Hilton Hotel within the project and it houses companies such as IBM, Goldman Sachs, Fidelity, Target, Microsoft, Mercedes-Benz, Misys, Netapp and CSC.

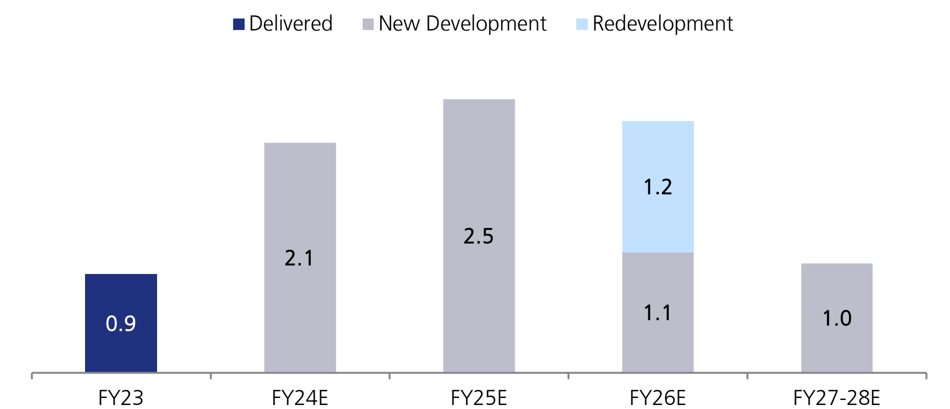
- Embassy One: Embassy One is strategically located on the main road entering Bengaluru CBD from the international airport. It provides premium small format office space to corporate occupiers with the added benefit of being part of a mixed use project that also comprises a luxury Four Seasons Hotel. It is located on a 3.5 acre land parcel, has a total leasable area of 0.3msf and a 230 room hotel.

- Embassy Business Hub (EBH): EBH is a 59-acre campus-style business park, which is situated in the high visibility growth corridor of North Bengaluru, and is close to both the airport and Embassy's flagship property Embassy Manyata. Embassy has recently acquired Embassy Sponsor's affiliates' share of 1.4msf total leasable area, of which 0.4msf is nearing completion and 93% is pre-committed to Philips, a global electronics major, and the balance 1.0msf is in early stages of development.

Significant capex and ROFO to drive growth

- **Development pipeline:** From FY24-27E, Embassy has an active development pipeline of 7.9msf spread across Embassy TechVillage, Embassy Manyata, Embassy Business Hub (all three in Bengaluru) and Embassy Oxygen (Noida) which upon stabilisation will generate INR 9bn incremental NOI. Over 90% of this development will come in Bengaluru, a key office market in India. Out of the 7.9msf, Embassy is expected to add a total of 2.1msf to its portfolio in FY24E at Embassy Manyata (1msf), Embassy Business Hub (0.4msf) and Embassy Oxygen (0.7msf).

Exhibit 10. Development pipeline (in msf)



Source: Company, JM Financial

- **ROFO pipeline:** For a period of 10 years from the date of listing, Embassy has the Right of First Offer (ROFO) on certain assets owned by the Sponsor or its subsidiaries if it seeks to sell them. Embassy as of Jun'23 has a ROFO pipeline of 30msf from the Embassy Sponsor and another asset with a potential 4.2msf at Embassy Whitefield (ETV Backland) owned by certain Blackstone Entities and third-party stakeholders. In addition, Embassy has secured ROFO from the Embassy Sponsor for Embassy Business Hub - Phase 3 (~46 acres), adjacent to recently acquired Phase 1 and Phase 2 developments.

Exhibit 11. Potential to add 30msf of area through its ROFO pipeline

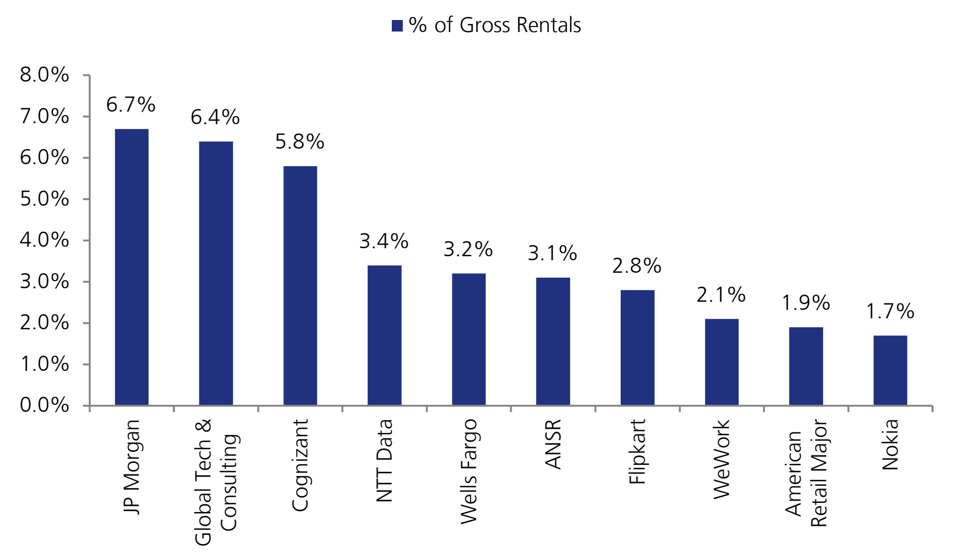
Embassy Sponsor ROFO assets	Embassy Splendid TechZone	Embassy Concord	Embassy Knowledge Park
Location	Thoraipakkam- Pallavaram Radial Road, Chennai	Whitefield, Bangalore	Bellary Road, Bangalore
Land area (in acres)	c. 26.0	c. 60.6	c. 202.1
Project Status	Operational and Under Construction	Land Acquired	Land Acquired
Leasable Area (msf)	c.5.0	c.8.5	c.16.5
Completed Area (msf)	c.1.4	-	-
Occupancy (%)	89%	-	-
Under Construction Area (msf)	c.1.6	-	-
Pre-committed Area (%)	9%	-	-
Proposed Development Area (msf)	c.2.0	c.8.5	c.16.5

Source: Company, JM Financial

High quality, diversified occupier base

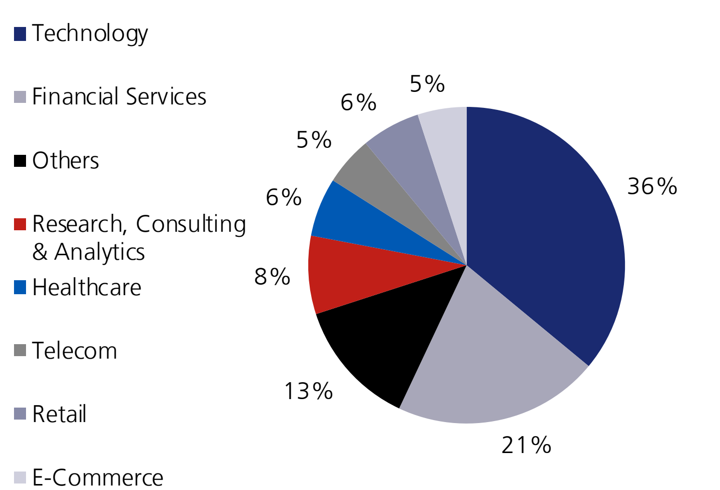
- **Highly diversified and sticky tenant base:** Embassy has a highly diversified tenant base with the largest tenant contributing only 6.7% of the total gross rentals and the top 10 occupiers accounting for 37%. As of 1QFY24, the company has 234 occupiers (165 occupiers at the time of listing) out of which global captives and tech occupiers constitute over 70% of the occupier base. In terms of industry, technology sector clients contribute 36% followed by financial services with 21%. Furthermore, multinationals who can be considered sticky contribute 81% of the gross rentals while Fortune 500 tenants contribute 47%.

Exhibit 12. Largest tenant contributing only 6.7% of the gross rentals



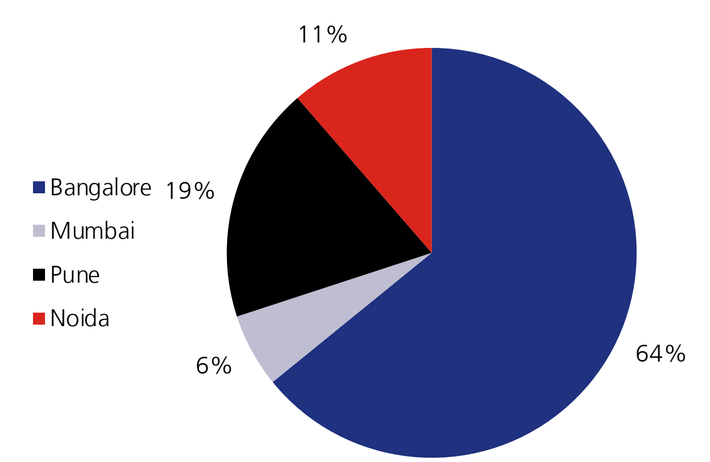
Source: Company, JM Financial

Exhibit 13. Rentals diversified across sectors



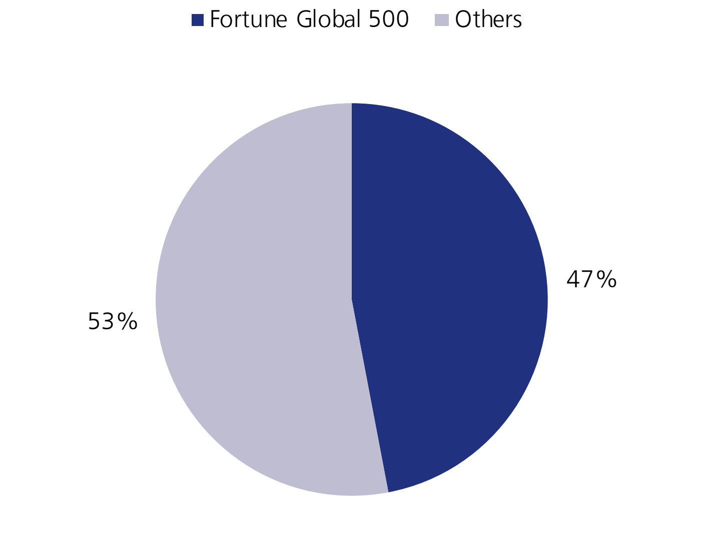
Source: Company, JM Financial

Exhibit 14. City-wise concentration by completed area



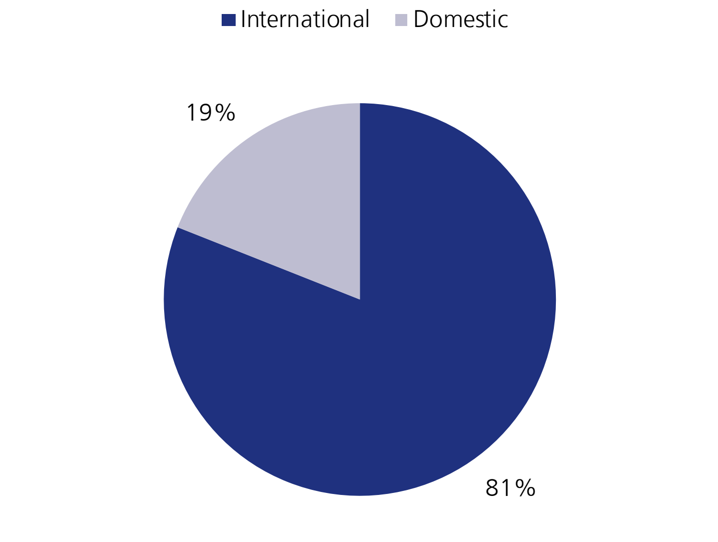
Source: Company, JM Financial

Exhibit 15. Fortune Global 500 contribution as a % of rentals



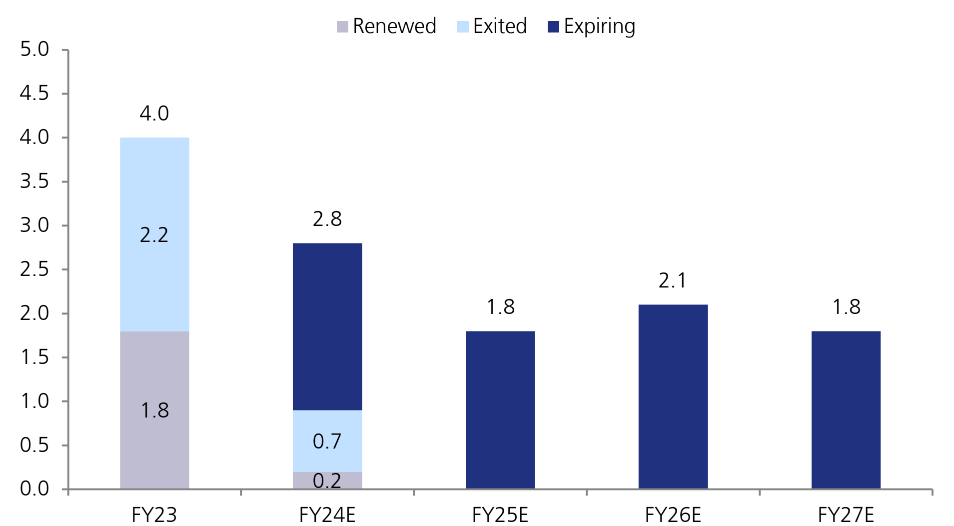
Source: Company, JM Financial

Exhibit 16. Sticky international tenants account for 81% of rentals



Source: Company, JM Financial

Exhibit 17. Lease expiry schedule (in msf)



Source: Company, JM Financial

Exhibit 18. MTM potential on expiring rentals

Particulars (%)	FY24E	FY25E	FY26E	FY27E
MTM opportunity	29%	49%	21%	11%
Rents Expiring	6%	6%	9%	5%

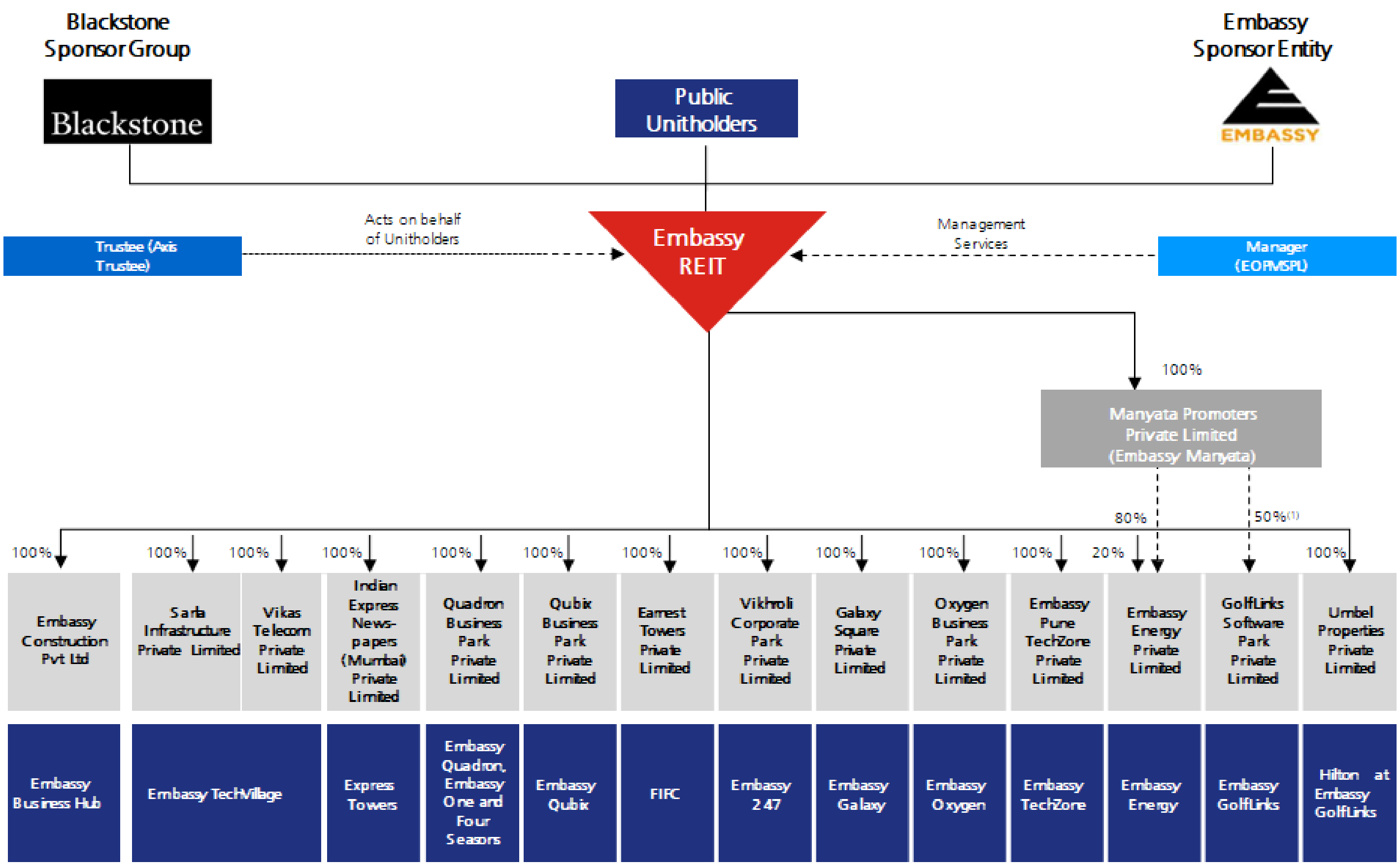
Source: Company, JM Financial

- **Lease expiry:** The lease expiry of the portfolio is well spread with significant MTM opportunity as 26% of leases expire during FY24-27. In FY24, 2.8msf is expiring out of which 0.7msf has already been exited and 0.2msf has been renewed. The MTM potential ranges from 11-49% allowing Embassy to capture the MTM upside. Majority of the lease expiry, c. 1.3msf, is coming in at Embassy Manyata which has an MTM upside of 45%. However, if Embassy is unable to re-lease this area it could impact revenue significantly given that it contributes 11% to total gross rentals.

Company Overview

- India's first and Asia's largest office REIT: Embassy Office Parks REIT (Embassy) is India's first publicly listed REIT co-sponsored by Embassy Property Developments Private Limited, one of India's leading office developers, and BRE / Mauritius Investments, part of Blackstone, which is one of the world's largest real estate investment managers. Embassy is Asia's largest office REIT by area, as it owns and operates a total of 45msf across 13 Grade-A office assets in Bengaluru, Mumbai, Pune and Noida. In addition, the portfolio includes 1,096 operational keys across three hotels in Bengaluru and a 100MW solar park supplying renewable energy to its occupiers.

Exhibit 19. Embassy holding structure



Source: Company, JM Financial

Exhibit 20. Board of directors and management team

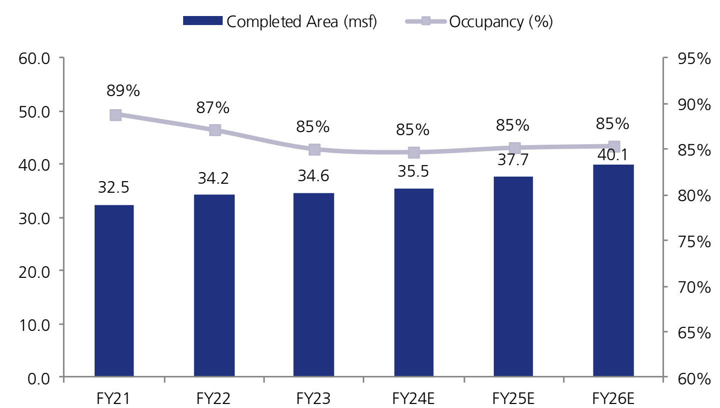
Name	Position	Brief Profile
Board of Directors		
Jitendra Virwani	Non-Executive Director Chairman	He is the Chairman and Managing Director of the Embassy Group of companies, including the Embassy Sponsor. He is also the Founder of the Embassy Sponsor.
Tuhin Parikh	Non-Executive Director	He was on the Board of TCG Urban Infrastructure Holdings Limited from 2002 and 2007. He is an employee of Blackstone since 2007 and is the Senior Managing Director of Blackstone and head of Real Estate of India.
Robert Christopher Heady	Non-Executive Director	He has been with Blackstone since 2000 and is currently the Chairman of Asia Pacific, Head of Real Estate Asia for Blackstone.
Aditya Virwani	Non-Executive Director	He is the COO of the Embassy Group. He is one of the heirs to the Embassy Group and is a key decision maker for most of the companies within the parent company.
Vivek Mehra	Independent Director	He was a partner with PwC Pvt. Ltd. for approximately 19 years and retired in 2016. He is currently an Independent Director on the Boards of DLF Limited, DLF Asset Management Limited and many others
Anoop Kumar Mittal	Independent Director	He is a veteran in the construction industry, having four decade's experience and occupies a distinguished position among eminent civil engineers in the country. His area of expertise includes Merger & Acquisitions, revival of ailing companies apart from his core area of Infra & Real Estate
Punita Kumar Sinha	Independent Director	She has focused on investment management and financial markets during her 30-year career. She has significant governance and Board experience across India and North America, having served on boards for more than a decade.
Ranjan Pai	Independent Director	He holds a MBBS degree from the Manipal Academy of Higher Education. He is the Chairman of Manipal Education and Medical Group (MEMG), the Group's holding company.
Management Team		
Aravind Maiya	Chief Executive Officer	He has over 22 years of experience in real estate, capital markets, audit and consulting. Aravind was the CFO at Embassy from May 2019 to May 2022, and played a pivotal role in driving the growth of India's first listed REIT
Ritwik Bhattacharjee	Chief Investment Officer	He has over 18 years of corporate advisory, capital markets and investing experience, including 12+ years at global investment banks such as Nomura, Citi, UBS and JPMorgan.
Abhishek Agrawal	Chief Financial Office	He has been associated with Embassy since Aug'20. Prior to joining the Manager, he was associated with S. R. Batliboi & Associates LLP and B S R & Co. LLP between here he was Associate Director – Assurance and Audit Services.
Rajendran Subramaniam	Head – Projects and Capex	He is an associate of the Institute of Chartered Accountants of India. He has 25 years of experience across various fields of infrastructure and commercial real estate project development, including that of mixed-use real estate development.

Source: Company, JM Financial

Financials

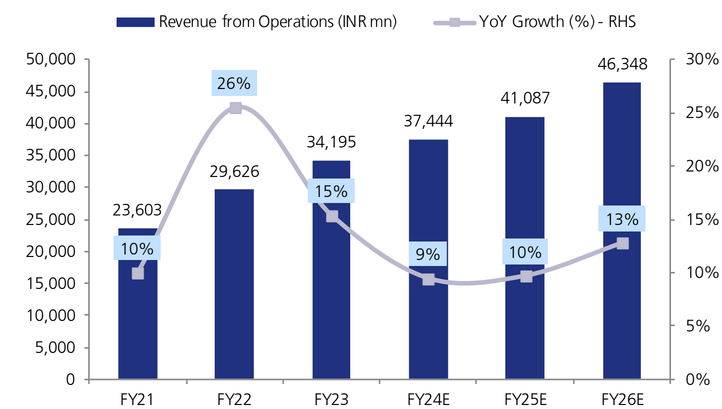
- **Rental escalations, lease-up of new area and MTM potential on expiries to drive growth:** We estimate revenue to grow at a CAGR of 10.7% to INR 46.3bn by FY26E on the back of completion and lease-up of new area, improving rentals and MTM potential on lease expiries. Furthermore as the hotel portfolio matures, we expect hospitality revenue to grow at a CAGR of 6.3% to INR 4.1bn by FY26E. NOI and NDCF are likely to grow at a CAGR of 10.9% and 6.3% to INR 37.7bn and INR 24.7bn respectively by FY26E.

Exhibit 21. c. 5msf of area addition by FY26E…



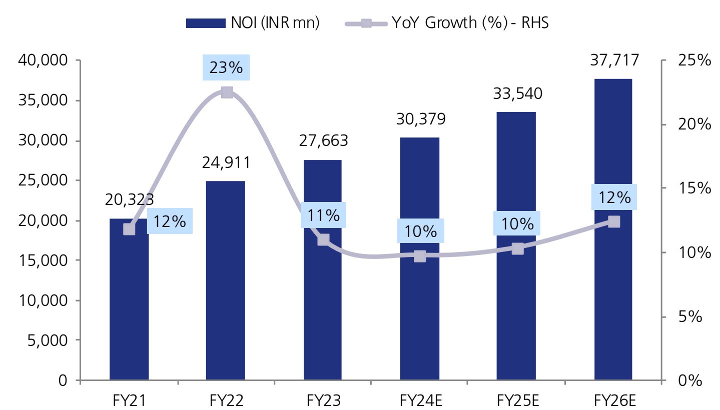
Source: Company, JM Financial

Exhibit 22. …leading to significant revenue growth



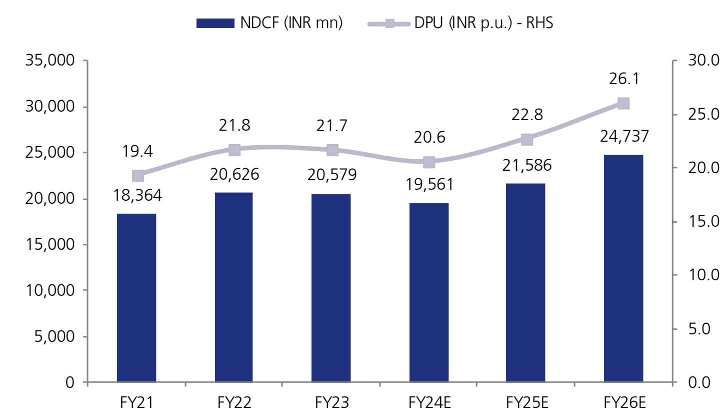
Source: Company, JM Financial

Exhibit 23. NOI to follow similar trend as revenue



Source: Company, JM Financial

Exhibit 24. Distributions to pick up from FY25E



Source: Company, JM Financial

Exhibit 25. NDCF to grow on the back of area expansion, strong leasing and rising rentals

Particulars (INR mn unless specified)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY23-26E CAGR (%)
Completed Area	32.5	34.2	34.6	35.5	37.7	40.1	
Facility Rentals	18,476	22,162	23,798	25,951	28,861	32,488	10.9%
Growth (%)		20%	7%	9%	11%	13%	
Revenue from Operations	23,603	29,626	34,195	37,444	41,087	46,348	10.7%
Growth (%)		26%	15%	10%	10%	13%	
NOI	20,323	24,911	27,663	30,379	33,540	37,717	10.9%
Growth (%)		23%	11%	10%	10%	12%	
NOI Margin (%)	86%	84%	81%	81%	82%	81%	
EBITDA	21,078	25,837	27,856	30,273	33,209	36,966	9.9%
Growth (%)		23%	8%	9%	10%	11%	
EBITDA Margin (%)	89%	87%	81%	81%	81%	80%	
NDCF	18,364	20,626	20,579	19,561	21,586	24,737	6.3%

Source: Company, JM Financial

Exhibit 26. Financial snapshot

Particulars (INR mn)	1QFY24	1QFY23	YoY(%)	4QFY23	QoQ(%)	FY23	FY24E	FY23-24 YoY (%)
Net sales	**9,426**	**8,551**	**10%**	**8,953**	**5%**	**34,195**	**37,444**	**9%**
Cost of sales	105	101	4%	102	4%	390	410	5%
Gross margin (%)	99%	99%	7bps	99%	2bps	99%	99%	5bps
Employee expenses	161	112	44%	192	-16%	590	649	10%
Other expenses	2,073	1,848	12%	2,172	-5%	7,771	7,028	-10%
EBITDA	**7,086**	**6,490**	**9%**	**6,487**	**9%**	**25,444**	**29,357**	**15%**
EBITDA margin (%)	75%	76%	-72bps	72%	272bps	74%	78%	400bps
Depreciation	2,288	2,198	4%	3,470	-34%	11,284	9,082	-20%
Interest costs	2,555	2,312	10%	2,536	1%	9,761	11,675	20%
Other income	250	54	367%	53	374%	1,441	1,050	-27%
Share of profits of equity accounted investees	184	196	-6%	238	-23%	778	764	-2%
PBT (incl extraordinary items)	2,677	2,230	20%	771	247%	6,618	10,414	57%
Tax	337	441	-24%	417	-19%	1,558	1,335	-14%
PAT	**2,340**	**1,788**	**31%**	**354**	**560%**	**5,060**	**9,080**	**79%**
NDCF	**5,100**	**5,052**	1%	**5,318**	-4%	**20,579**	**19,561**	-5%

Source: Company, JM Financial

Exhibit 27. NDCF walkdown

Walkdown of Financial Metrics (INR mn)	FY20	FY21	FY22	FY23
Facility Rentals	16,690	18,476	22,162	23,798
Income from Hotels	1,173	231	609	3,394
Income from Generation of Energy	1,566	1,548	1,505	1,612
Maintenance Services and Other	2,020	3,348	5,350	5,390
Revenue from Operations	**21,449**	**23,603**	**29,626**	**34,195**
Property Taxes	-704	-767	-1,025	-1,115
Insurance	-67	-82	-149	-180
Direct Operating Expenses	-2,509	-2,431	-3,540	-5,237
Net Operating Income (NOI)	**18,170**	**20,323**	**24,911**	**27,663**
Property Management Fees	-486	-536	-670	-695
Repairs to Buildings	-76	-127	-148	-166
Other Indirect Operating Expenses	-585	-581	-736	-871
Dividend from Golflinks	559	915	1,400	920
Other Income	734	1,084	1,080	1,006
EBITDA	**18,316**	**21,078**	**25,837**	**27,856**
Working Capital changes	2,429	418	2,977	2,540
Cash Taxes	-1,381	-522	-1,670	-1,228
Principal repayment on external debt	-416	-133	-134	-69
Interest on external debt	-1,150	-1,422	-1,848	-3,329
Non-Cash Adjustments and Others	-855	-679	-376	-711
NDCF (SPV Level)	**16,943**	**18,740**	**24,786**	**25,059**
Distributions from SPVs to Trust	17,206	18,862	24,814	25,001
Distributions from Golflinks to Trust	1,920	738	-	2,070
Interest and other Income at Trust	-	-914	-3,820	-6,018
REIT Management Fees	-215	-212	-254	-239
Trust level expenses	-45	-117	-102	-205
NDCF (REIT Level)	**18,866**	**18,356**	**20,638**	**20,608**
Distribution from Embassy	18,821	18,364	20,626	20,579
Interest	7,709	6,217	3,649	2,901
Dividend	286	2,716	9,337	9,545
Amortization of SPV level debt	10,826	9,431	7,640	8,133
Other Income	0	0	0	0
Distribution (% of NDCF)	**99.8%**	**100.0%**	**99.9%**	**99.9%**
No. of Units Outstanding (in mn)	**948**	**948**	**948**	**948**
DPU (INR p.u.)	**19.8**	**19.4**	**21.8**	**21.7**

Source: Company, JM Financial

Valuation

- We assume 11.5% WACC and use 8% terminal cap rate to arrive at a Sep'24 NAV of INR 340 per share. We ascribe 1x NAV as the target multiple to arrive at a Sep'24 TP of INR 340 (18.6% total return potential; 11.5% capital appreciation and 7.1% NDCF yield).

Exhibit 28. Sep'24 SOTP-based TP

SOTP	Sep'24
Enterprise Value (INR mn)	**472,843**
Less: Net debt (INR mn)	153,033
Equity Value (INR mn)	**319,810**
Shares Outstanding (mn)	**948**
Target Price (INR)	**340**
CMP	**305**
Upside (%)	11.5%

Source: Company, JM Financial

Exhibit 29. Total expected returns

Total Return till Sep'24	(%)
Capital Appreciation	11.5%
Dividend Received	7.1%
Total	**18.6%**

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	27,346	31,643	33,907	37,357	42,256
Sales Growth	28.4%	15.7%	7.2%	10.2%	13.1%
Other Operating Income	2,280	2,552	3,536	3,730	4,091
Total Revenue	**29,626**	**34,195**	**37,444**	**41,087**	**46,348**
Cost of Goods Sold/Op. Exp	85	390	410	430	452
Personnel Cost	229	590	649	714	785
Other Expenses	6,332	7,771	7,028	7,727	9,101
EBITDA	**22,981**	**25,444**	**29,357**	**32,215**	**36,010**
EBITDA Margin	77.6%	74.4%	78.4%	78.4%	77.7%
EBITDA Growth	24.2%	10.7%	15.4%	9.7%	11.8%
Depn. & Amort.	7,965	11,284	9,082	9,162	9,242
EBIT	15,016	14,160	20,275	23,054	26,768
Other Income	1,269	1,441	1,050	950	851
Finance Cost	8,285	9,761	11,675	13,180	14,273
PBT before Excep. & Forex	8,000	5,840	9,651	10,824	13,346
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	8,000	5,840	9,651	10,824	13,346
Taxes	79	1,558	1,335	1,464	1,630
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	962	778	764	828	797
Reported Net Profit	8,884	5,060	9,080	10,188	12,514
Adjusted Net Profit	**8,884**	**5,060**	**9,080**	**10,188**	**12,514**
Net Margin	30.0%	14.8%	24.2%	24.8%	27.0%
Diluted Share Cap. (mn)	948.2	948.2	948.2	948.2	948.2
Diluted EPS (INR)	**9.4**	**5.3**	**9.6**	**10.7**	**13.2**
Diluted EPS Growth	11.4%	-43.0%	79.5%	12.2%	22.8%
Total Dividend + Tax	20,626	20,579	19,561	21,586	24,737
Dividend Per Share (INR)	21.8	21.7	20.6	22.8	26.1

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	258,867	243,683	233,202	221,804	209,581
Share Capital	288,262	288,262	288,262	288,262	288,262
Reserves & Surplus	-29,395	-44,579	-55,060	-66,458	-78,681
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	121,014	148,055	158,356	168,527	178,693
Def. Tax Liab. / Assets (-)	51,656	51,705	51,705	51,705	51,705
Total - Equity & Liab.	**431,537**	**443,443**	**443,263**	**442,036**	**439,979**
Net Fixed Assets	395,885	397,328	397,832	397,542	396,632
Gross Fixed Assets	317,537	320,814	322,331	323,054	323,157
Intangible Assets	78,023	75,910	74,897	73,884	72,871
Less: Depn. & Amort.	0	0	0	0	0
Capital WIP	325	605	605	605	605
Investments	0	8,158	6,658	5,158	3,658
Current Assets	55,984	58,510	60,004	61,444	62,863
Inventories	11	36	39	43	48
Sundry Debtors	606	504	529	556	583
Cash & Bank Balances	5,884	8,173	9,295	10,326	11,278
Loans & Advances	0	0	0	0	0
Other Current Assets	49,483	49,797	50,141	50,519	50,954
Current Liab. & Prov.	20,333	20,554	21,232	22,109	23,175
Current Liabilities	4,721	5,600	5,648	5,700	5,757
Provisions & Others	15,612	14,954	15,584	16,409	17,418
Net Current Assets	35,651	37,956	38,772	39,335	39,688
Total – Assets	**431,537**	**443,443**	**443,263**	**442,036**	**439,979**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	8,000	5,840	9,651	10,824	13,346
Depn. & Amort.	7,965	11,284	9,082	9,162	9,242
Net Interest Exp. / Inc. (-)	7,385	8,637	10,624	12,230	13,422
Inc (-) / Dec in WCap.	1,770	-980	19	22	25
Others	266	2,131	-497	-543	-594
Taxes Paid	-1,717	-1,257	-1,335	-1,464	-1,630
Operating Cash Flow	**23,670**	**25,655**	**27,544**	**30,230**	**33,811**
Capex	-14,010	-10,921	-9,586	-8,872	-8,332
Free Cash Flow	9,660	14,735	17,958	21,358	25,479
Inc (-) / Dec in Investments	660	-8,185	1,500	1,500	1,500
Others	1,530	2,409	1,966	1,944	1,808
Investing Cash Flow	**-11,820**	**-16,696**	**-6,119**	**-5,428**	**-5,024**
Inc / Dec (-) in Capital	-38	-20	0	0	0
Dividend + Tax thereon	-20,947	-20,246	-19,561	-21,586	-24,737
Inc / Dec (-) in Loans	12,267	21,439	9,586	8,872	8,332
Others	-6,421	-9,862	-10,328	-11,056	-11,430
Financing Cash Flow	**-15,140**	**-8,690**	**-20,304**	**-23,770**	**-27,835**
Inc / Dec (-) in Cash	**-3,290**	**269**	**1,121**	**1,031**	**952**
Opening Cash Balance	9,175	7,904	8,173	9,295	10,326
Closing Cash Balance	5,885	8,173	9,295	10,326	11,278

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	30.0%	14.8%	24.2%	24.8%	27.0%
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	1.6	1.8	1.9	2.0	2.1
RoE	3.4%	2.0%	3.8%	4.5%	5.8%

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	273.0	257.0	245.9	233.9	221.0
ROIC	4.0%	2.8%	4.7%	5.3%	6.3%
ROE	3.4%	2.0%	3.8%	4.5%	5.8%
Net Debt/Equity (x)	0.4	0.6	0.6	0.7	0.8
P/E (x)	32.4	57.0	31.7	28.3	23.0
P/B (x)	1.1	1.2	1.2	1.3	1.4
EV/EBITDA (x)	17.6	16.8	14.9	13.9	12.7
EV/Sales (x)	13.6	12.5	11.7	10.9	9.8
Debtor days	7	5	5	5	5
Inventory days	0	0	0	0	0
Creditor days	17	20	24	24	22

Source: Company, JM Financial

Mindspace Business Parks REIT | BUY

Resilient performance in tough times

Mindspace Business Parks REIT (Mindspace) is one of India's largest commercial office portfolios with a dominant position in Hyderabad. Mindspace owns a 32.0msf (25.9msf completed & operational) portfolio that is currently tracking an occupancy of 86.9% and a WALE of 6.9 years. It has a diverse portfolio of marquee tenants with ~75% attributable to multinational corporations and ~31% to Fortune 500 companies. We estimate Rentals/NOI FY23-FY26E CAGR of 9.6%/10.1% respectively. We assume coverage with BUY and a DCF-based target price of INR 345, implying a total return of 17.3%, including a 12-month dividend yield of 6.6%.

- **One of the largest commercial real estate platforms:** Mindspace has a portfolio of 32.0msf of which 40% (by total completed area) is contributed by MMR and 39% by Hyderabad. Mindspace's portfolio markets (Mumbai Region, Hyderabad, Pune and Chennai) benefit from in-place transportation infrastructure and have exhibited strong underlying growth fundamentals (economic and employment growth, educated workforce and favourable demand and supply outlook). Further, of the total area of 32.0msf in office assets, ~78% is already operational with an overall occupancy of 86.9% and in-place rent of INR 66/sf/month across the operational portfolio.

- **Diversified portfolio of marquee tenants:** The top 10 occupiers for Mindspace contribute 31% to gross rental income, which compares favourably against its peers. Mindspace has been able to retain its key clients, which is demonstrated in the leasing performance. Out of the 4.1msf gross leasing completed in FY23, 61% of the area (FY22: 68%) was leased to existing tenants (and this includes pre-leasing in new buildings as well). Across FY24E and FY25E, 11% of the rentals are expiring, which should help in improving occupancies across the portfolio.

- **Significant exposure to Hyderabad:** Mindspace is one of the largest landlords in Hyderabad with total leasable area of 14.1msf and operational area of 10.2msf. The Hyderabad region contributes 38% to Mindspace's Gross Asset Value (GAV) and 39% to completed leasable area. Additionally, its assets are located in Madhapur, the most sought after micro-market in Hyderabad. Activity levels in Hyderabad have gone up significantly in the last 5-7 years and it would be one of the first markets to benefit from any recovery in leasing demand. Despite a consistent increase in average in-place rentals, they still compare favourably to other metros.

- **Assume coverage with BUY, TP of INR 345:** While a higher WALE provides stability to rental income, we could see possible rent surprises/ catch-up in certain assets over the medium to long term. We expect occupancies to be steady, even as 1.5msf of area gets completed in the next 2 years. NOI margins will also be stable, as in the recent past. We estimate Rentals/NOI FY23-FY26E CAGR of 9.6%/10.1% respectively. We assume coverage with BUY rating and a DCF-based target price of INR 345, implying a total return of 17.3%, including a 12-month dividend yield of 6.6%.

Sumit Kumar
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We acknowledge the support of **Prithvi Shah** in the preparation of this report

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	345
Upside/(Downside)	10.2%
Previous Price Target	375
Change	-8.0%

Key Data – MINDSPCE IN	
Current Market Price	INR313
Market cap (bn)	INR185.6/US$2.2
Free Float	25%
Shares in issue (mn)	593.0
Diluted share (mn)	593.0
3-mon avg daily val (mn)	INR97.7/US$1.2
52-week range	379/285
Sensex/Nifty	66,009/19,674
INR/US$	82.9

Price Performance			
%	1M	6M	12M
Absolute	1.4	3.4	-15.5
Relative*	-0.3	-9.9	-25.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	17,501	22,821	22,865	25,049	27,742
Sales Growth (%)	53.8	30.4	0.2	9.5	10.8
EBITDA	13,649	15,376	17,123	18,999	21,069
EBITDA Margin (%)	78.0	67.4	74.9	75.8	75.9
Adjusted Net Profit	5,082	4,204	5,656	6,805	7,685
Diluted EPS (INR)	8.6	7.1	9.5	11.5	13.0
Diluted EPS Growth (%)	51.7	-17.3	34.5	20.3	12.9
ROIC (%)	3.1	2.9	4.2	5.0	5.5
ROE (%)	3.2	2.8	3.9	4.9	5.8
P/E (x)	36.5	44.2	32.8	27.3	24.2
P/B (x)	1.2	1.3	1.3	1.4	1.4
EV/EBITDA (x)	17.4	16.0	15.0	14.1	13.1
Dividend Yield (%)	5.9	6.1	6.4	6.9	7.1

Source: Company data, JM Financial. Note: Valuations as of 22/Sep/2023

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Investment Rationale

One of the largest commercial real estate platforms

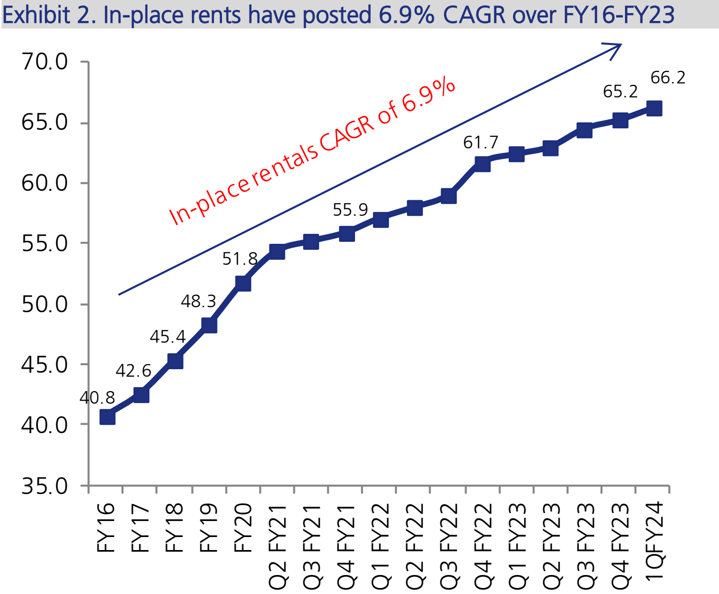
- Mindspace Business Parks REIT owns five integrated business parks and five high quality independent office assets across India with 25.9msf of completed leasable area and under construction and development pipeline of 6.2msf. As of 30th Jun'23, the portfolio is currently tracking a committed occupancy of 88.8% and a Weighted Average Lease Expiry (WALE) of 6.9 years.
- Of the total asset portfolio, 41% of the office space is located in the Mumbai Metropolitan Region, mainly in two large integrated business parks in Airoli East and Airoli West in the Thane-Belapur micro-market of Navi Mumbai. Another 39% is located in Hyderabad, mainly in the Madhapur micro-market with another 17% of area in Pune and 3% in Chennai. Further, of the total development potential of 32.0msf in office assets, ~78% is already operational with an overall occupancy of 86.9% and in-place rent of INR 66/psf/month across the operational portfolio.

Exhibit 1. Mindspace is one the largest office portfolios in India

Particulars	Mindspace	Embassy	Brookfield	DCCDL (Office)	CLINT (Ascendas)
Leasable Area (msf)	32.0	45.0	25.2	41.0	29.9
Completed Area (msf)	25.9	34.3	20.6	35.7	19.2
Under construction (msf)	2.5	7.9	0.7	5.3	9.9
Proposed development (msf)	3.6	2.8	3.9	n/a	0.8
Leased area (msf)	23.0	29.2	16.9	31.5	17.5
Occupancy (%)	89%	85%	82%	88%	91%
Vacant Area (msf)	2.9	5.1	3.7	4.2	1.7
GAV (INR mn)	280,265	514,141	163,729	517,220	150,412
Completed as % of total (By GAV)	93%	88%	96%	93%	n/a
U/C/Planned % of total (By GAV)	7%	12%	4%	7%	n/a

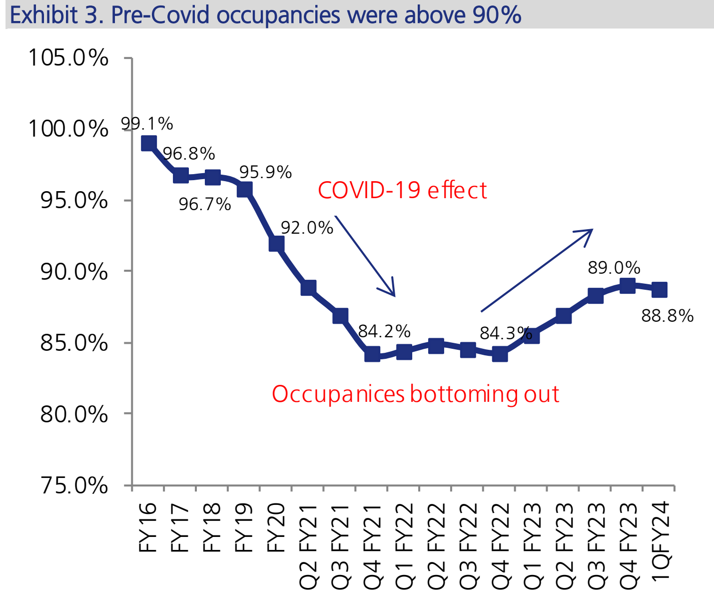
Source: Company, JM Financial

Exhibit 2. In-place rents have posted 6.9% CAGR over FY16-FY23



Source: Company, JM Financial

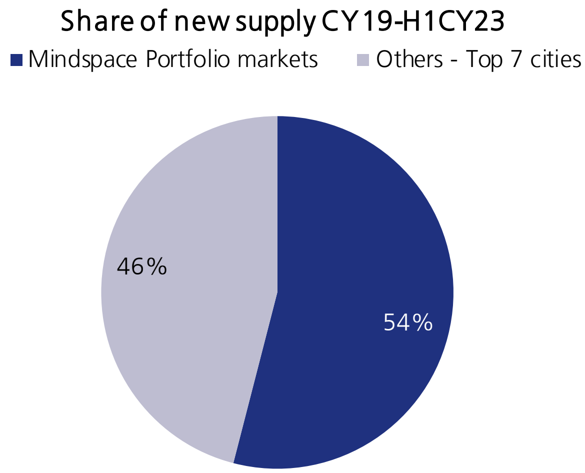
Exhibit 3. Pre-Covid occupancies were above 90%



Source: Company, JM Financial

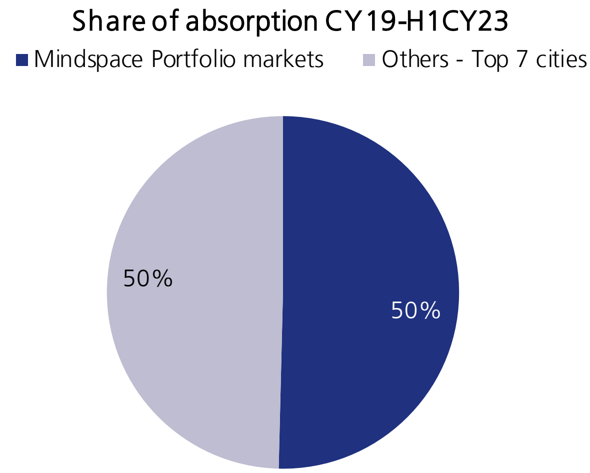
- Mindspace's portfolio markets (Mumbai Region, Hyderabad, Pune and Chennai) benefit from in-place transportation infrastructure and have exhibited strong underlying growth fundamentals (economic and employment growth, educated workforce and favourable demand and supply outlook). These portfolio markets are among the leading global markets, in terms of absorption.

Exhibit 4. Portfolio markets contribute ~54% of supply…



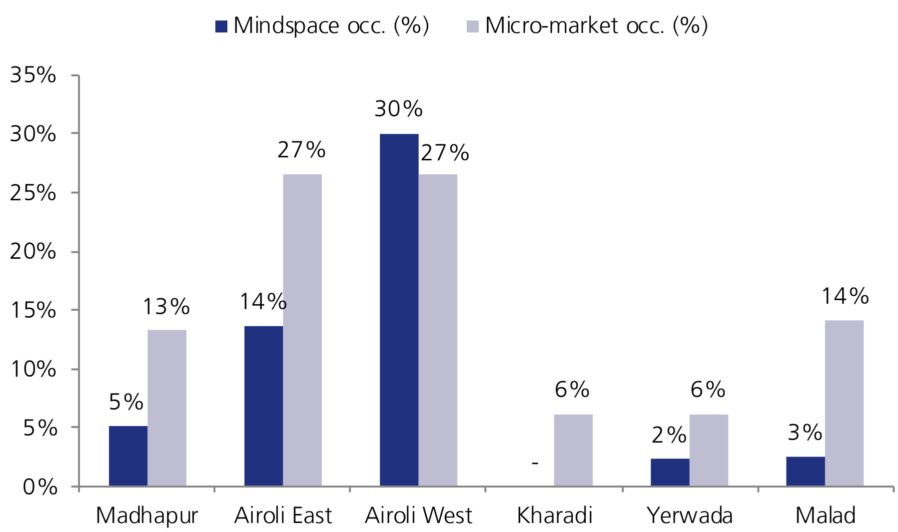
Source: Cushman and Wakefield, JM Financial

Exhibit 5. …and have 50% share in absorption



Source: Cushman and Wakefield, JM Financial

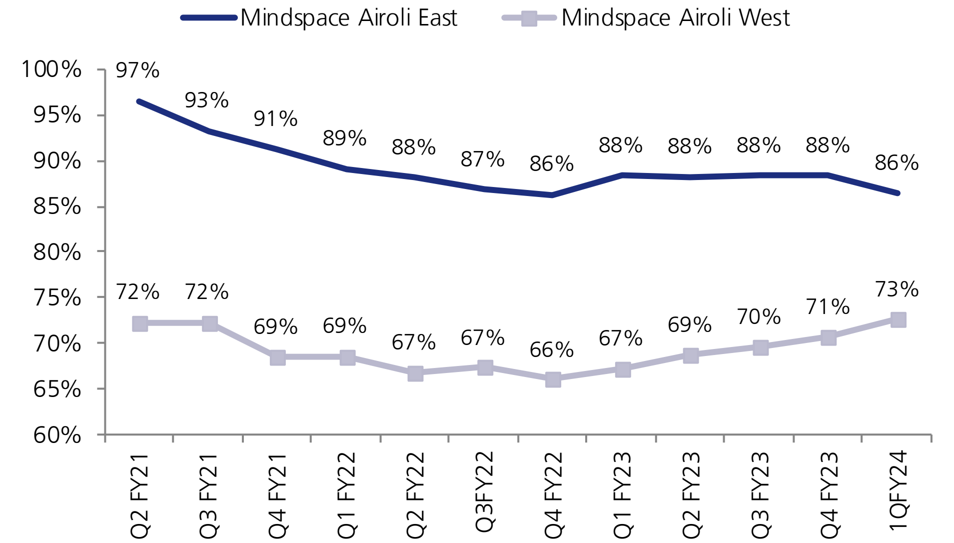
Exhibit 6. Mindspace has performed better than competition in most markets



Source: Company, JM Financial, Cushman and Wakefield
Note: Corresponding micro-market for comparison: Airoli East & West vs. Thane – Belapur Road; Kharadi & Yerawada vs. Pune-SBD East micro-market

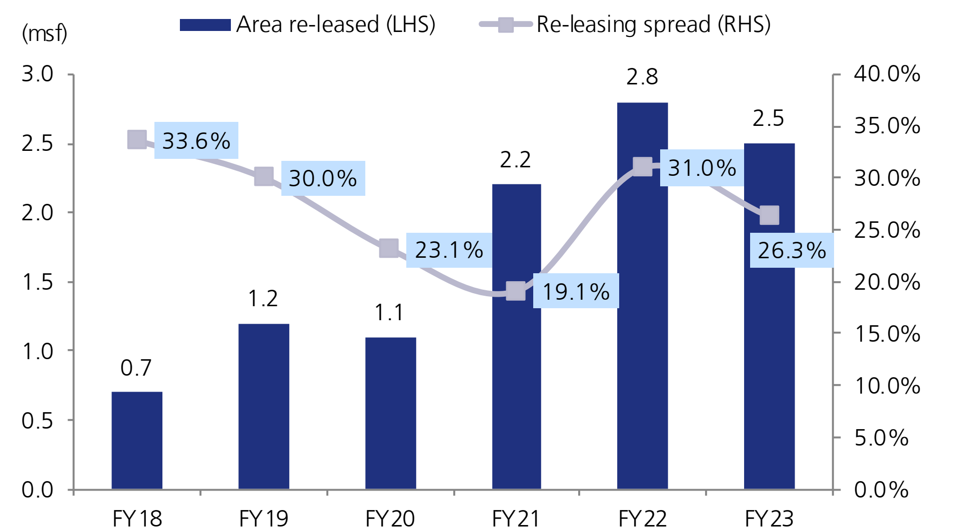
- Apart from Airoli West, the other major assets of Mindspace have considerably outperformed the market. They are preferred by Grade-A and MNC occupiers due to the large scale Grade-A campus format, better connectivity and ample amenities.
- Mindspace Airoli West has seen its committed occupancy drop to 66.0% in Q4FY22. It has recovered, and despite the increase in operational area by 1.0msf, it now stands at 73%. The park has been operational for over 10 years and now seen through most of the SEZ benefits. It is working to de-notify a vacant building (B5) and is hopeful of partial de-notification (floor-by-floor) being allowed in the foreseeable future.

Exhibit 7. Committed occupancies at Airoli properties



Source: Company, JM Financial

Exhibit 8. Considerable re-leasing spreads for Mindspace



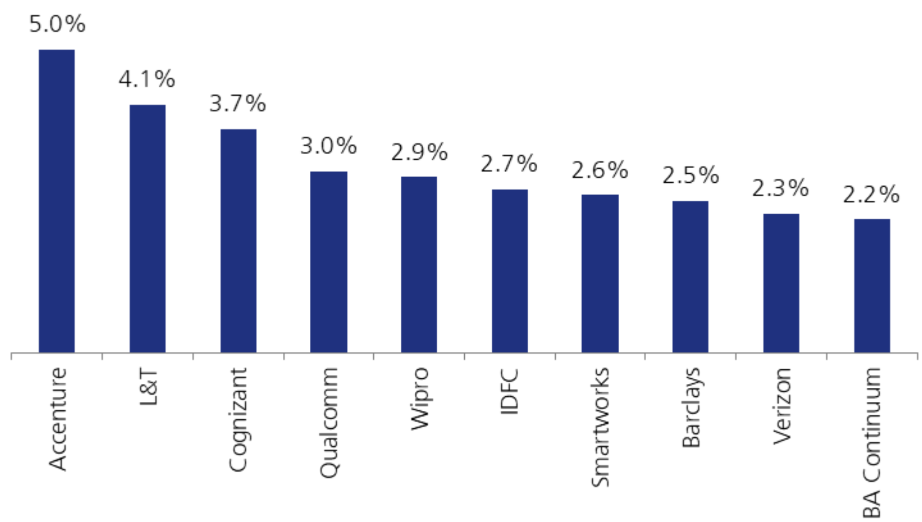
Source: Company, JM Financial

- Due to its superior portfolio quality, Mindspace has been able to achieve considerable re-leasing spreads in the past 6 years. Even in the Covid-affected years (FY21 and FY22), Mindspace achieved re-leasing spreads of 19.1% in FY21 and 31.0% in FY22.
- As a result, the in-place rentals have moved up from ~INR 52/sf/month in FY20 to INR 66/sf/month in 1QFY24. Despite this increase in average in-place rentals, the rentals still compare favourably to other metros.

Diversified portfolio of marquee tenants

- The top 10 occupiers for Mindspace contribute 31% to gross rental income, which compares favourably against its peers. Over the years, the contribution from the top 10 occupiers has come down to 31%, from 36% in 1QFY23 and 42% in FY20. The largest occupier contributed 8% to rental income in FY20. This has come down to 5% in 1QFY24.

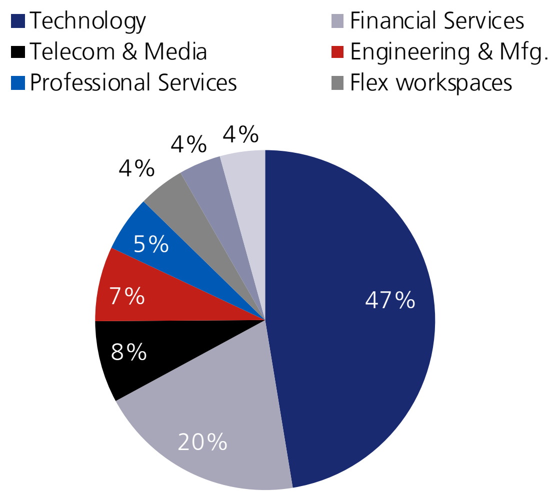
Exhibit 9. Top 10 occupiers contributed ~31% of rentals (1QFY24)



Source: Company, JM Financial
Note: Basis gross contracted rentals as on 30th Jun'23

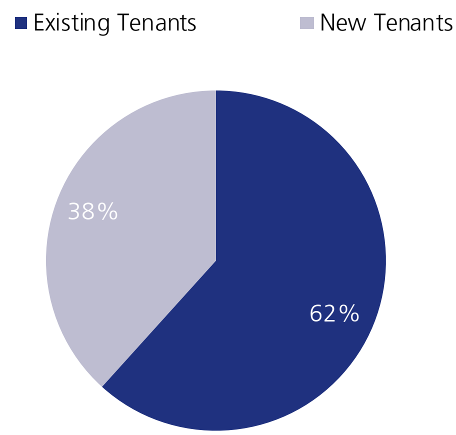
- Mindspace has a well-diversified tenant portfolio across sectors with the technology sector (47%) and financial services (20%) accounting for majority of the tenants across its office parks.

Exhibit 10. Diversified tenant mix



Source: Company, JM Financial

Exhibit 11. Gross leasing split by tenants (FY23)



Source: Company, JM Financial

- As of 30th Jun'23, Mindspace has more than 200 tenants (well-diversified with no single tenant contributing to more than 5.0% of gross contracted rentals), with a WALE of 6.9 years. In terms of gross contracted rentals, ~75% is attributable to multinational corporations and ~31% to Fortune 500 companies.

- Mindspace has been able to retain its key clients, as demonstrated in the leasing performance. Out of the 4.1msf gross leasing completed in FY23, 61% area (FY22: 68%) was leased to existing tenants (and this includes pre-leasing in new buildings as well).
- Mindspace has a portfolio wide WALE of 6.9 years. Lease expiry remains relatively low at 1.8msf and 1.0msf for FY24E and FY25E respectively. Across FY24E and FY25E, 11% of the rentals are expiring, which should help in improving occupancies across the portfolio.

Exhibit 12. Break-up of lease expiry profile

Particulars	FY24E			FY25E		
	Area Expiring (msf)	% of Gross Contracted Rentals	Rent at Expiry(INR psf)	Area Expiring (msf)	% of Gross Contracted Rentals	Rent at Expiry(INR psf)
Mindspace Airoli East	0.5	12.3%	53.3	0.2	5.3%	70.9
Mindspace Airoli West	0.1	1.8%	42.0	-	1.0%	66.0
Mindspace Malad	0.1	12.2%	105.3	-	2.4%	104.7
The Square BKC	-	0.0%	-	-	0.0%	-
Mumbai Region	**0.7**	**7.5%**	**57.8**	**0.2**	**3.0%**	**72.6**
Gera Commerzone Kharadi	0.0	0.0%	-	0.0	0.0%	-
The Square Nagar Road	-	0.0%	-	-	0.0%	-
Commerzone Yerwada	0.1	10.5%	78.2	0.4	19.0%	65.4
Pune	**0.1**	**4.0%**	**78.2**	**0.4**	**7.4%**	**65.4**
Mindspace Madhapur	0.7	7.9%	64.8	0.3	2.7%	57.2
Mindspace Pocharam	0.2	100.0%	22.2	-	0.0%	-
Hyderabad	**0.9**	**11.0%**	**57.3**	**0.3**	**3.4%**	**57.2**
Commerzone Porur	-	0.0%	-	-	0.0%	-
Chennai	**-**	**0.0%**	**-**	**-**	**0.0%**	**-**
Portfolio Total	**1.8**	**7.0%**	**57.8**	**1.0**	**3.7%**	**64.7**

Source: Company, JM Financial

Significant exposure to Hyderabad

- Mindspace is one of the largest landlords in Hyderabad with total leasable area of 14.1msf and operational area of 10.2msf. The Hyderabad region contributes 38% to Mindspace's GAV and 40% to completed leasable area.
- Mindspace Madhapur is the single largest asset in the portfolio and is located in the prime CBD location of the Madhapur-HITEC City office corridor. It is an integrated business park spread over 97 acres with completed leasable area of 10.2msf with additional development potential of 4.0msf. As of 30th Jun'23, it was tracking occupancies of 95.8% and WALE of 7.4 years.
- Mindspace Pocharam is an independent office asset with leasable area of 1.0msf. It is located in Pocharam, which is not an established office corridor. Consequently, the in-place rentals in this asset are the lowest in the portfolio at INR 22.2/sf/month and are expected to remain in the same range in the near term.

Hyderabad: Recent trends in the commercial office market

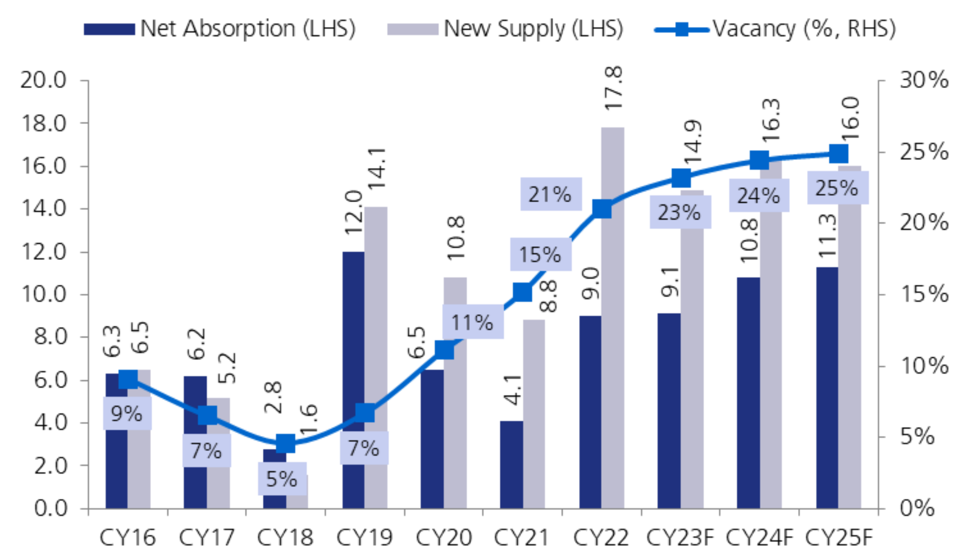
- Leasing activity: Absorption in Hyderabad dropped significantly in in 1QCY23 to 0.9msf (gross leasing) as office demand remained sluggish in the first quarter of the year. While IT and ITES sector led the leasing activity during the quarter, Healthcare and BFSI segments also contributed significantly. Absorption in flex spaces also remained healthy as many firms are favouring plug and play workspaces. The contribution of Madhapur region was 85% and Gachibowli contributed 15% of the total gross leasing in the quarter.

Exhibit 13. Recent performance of the Hyderabad office market

Sub-Markets	Total stock (sf)	Net Absorption(sf)			Vacancy (%)		
		1QCY23	QoQ change	YoY change	1QCY23	QoQ change	YoY change
CBD	3,284,888	8,973	-93%	n/a	9.5%	-20 bps	-810 bps
SBD	3,466,255	77,444	-55%	61%	25.6%	-220 bps	-280 bps
Madhapur	64,479,253	342,544	-76%	-68%	13.6%	40 bps	390 bps
Gachibowli	33,320,892	-4,222	-115%	-100%	34.6%	0 bps	1120 bps
Peripheral East	2,989,000	50,000	n/a	n/a	35.2%	-160 bps	-270 bps
Suburbs - Others	1,297,083	100,007	n/a	n/a	21.4%	-380 bps	-540 bps
Total	**108,837,371**	**574,746**	**-80%**	**-73%**	**20.7%**	**-36 bps**	**340 bps**

Source: Company, JM Financial, Valuation Report, 31st Mar'23

Exhibit 14. Hyderabad: 2nd most active market after Bengaluru



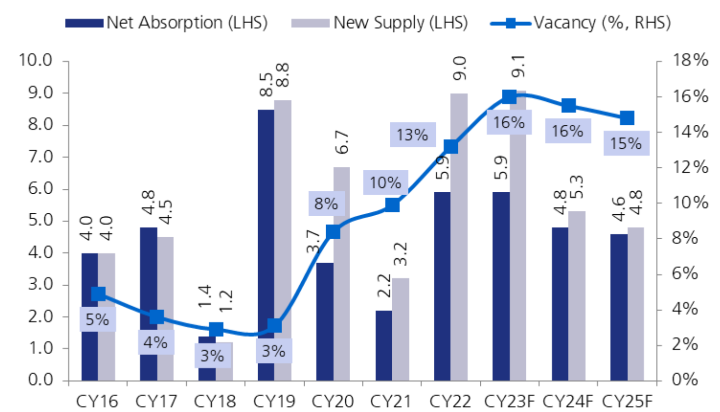
Source: Company, JM Financial

- **New supply:** In the last few years, Hyderabad has witnessed massive growth across the key submarkets. While the average annual supply up to CY18 has been 4.8msf, it jumped to 13.3msf in the last 4 years (CY19-CY23). After a record high supply during the last quarter, Hyderabad saw its lowest ever supply at 0.7msf in 1QCY23 owing to delays in receiving occupancy certificates.
- **Vacancy:** Vacancy levels in the city have gone up as leasing activity has largely lagged the robust growth in supply. Vacancy in Madhapur has gone up from 3% to 13%, but Gachibowli in particular has seen vacancies increasing to 34% from 8% in the last 3 years.

Madhapur: Most sought after micro-market in Hyderabad

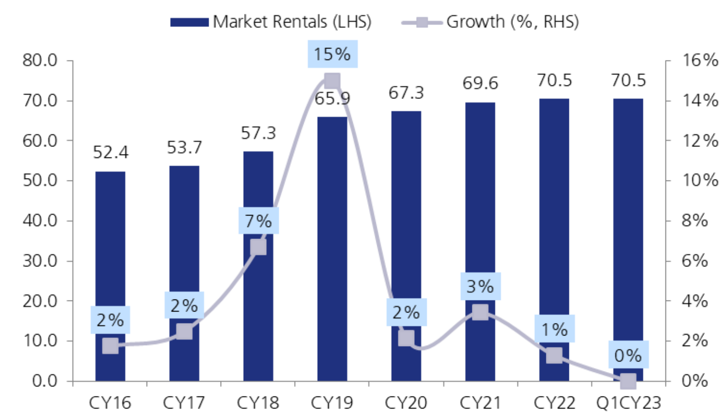
- **Leasing activity:** Madhapur enjoys superior connectivity and commands a market share of ~70% as larger occupiers prefer expanding in this market. Before CY20, demand has always matched or outpaced supply amidst the large flow of pre-commitments. However, post-Covid, demand has remained muted and the region recorded gross leasing of 0.8msf and net leasing of 0.5msf in 1QCY23.

Exhibit 15. Madhapur: Largest micro-market in Hyderabad…



Source: Company, JM Financial

Exhibit 16. …with highest rentals in the city



Source: Company, JM Financial

- **Supply:** With marquee office projects by tier 1 developers like RMZ, Salarpuria and Divyasree getting operational, supply has remained at ~7.0msf on average from CY19. The total office stock in the Madhapur micro-market currently stands at 64.5msf.
- **Vacancy:** As the micro-market has largely been driven by large pre-commitments, vacancy before CY19 was ~5%. However, due to considerable new supply and weak demand post Covid-19, vacancies stood at 13% in 1QCY23.
- **Average rentals:** Due to the excellent connectivity and the ecosystem it offers compared to the other micro-markets, it is preferred by large and marquee MNC occupiers. Consequently, average lease rentals in the micro-market are above the city average.

ROFO assets to add further scale and growth

- A ROFO agreement with the KRC Group provides a strong asset pipeline for Mindspace, if it decides to acquire those assets and inject them into the REIT.
- The Sponsors have agreed to grant and ensure that the relevant members of the KRC group shall (for a period of 10 years following the date of listing of Mindspace) grant a right of first offer to Mindspace (acting through the Trustee) in the event of any sale by the KRC group of the ROFO assets.
- The ROFO assets should meet the following criteria:
  - Aggregate leasable area in excess of 1msf
  - Not more than 30% of the area is proposed to be sold by way of a strata sale
  - Equity holding of at least 50% by any member of the KRC Group
  - Should be more than 50% complete
- Of 8.6msf of total pipeline, ~2.8msf is operational in Mindspace Juinagar, Navi Mumbai and Commerzone Raidurg. The remaining assets, Commerzone Pallikaranai, is being constructed in phases (Building 1 is complete, Building 3 will be completed in FY25), and accordingly, the total completed area of the Sponsor's ROFO Assets may grow to 3.5msf, as of 31st Mar'24. We have not assumed any ROFO asset injection given the uncertainty in timing the specific valuation and funding mechanism for injection of the ROFO assets.

Exhibit 17. ROFO assets of Mindspace

Assets	Location	Completed Area (msf)	Future Development Area (msf)	Total Leasable Area (msf)	Construction Status
Mindspace Juinagar	Mumbai Region	1.0	4.0	5.0	• Completed: 1.0 msf • U/C: 0.5 msf (100% pre-leased) • Future Dev.: 3.5 msf
Commerzone Pallikaranai	Chennai	-	1.8	1.8	• B1–Yet to commence • B2–Completed – 0.7 msf pre-leased • B3–Q1 FY25
Commerzone Raidurg	Hyderabad	1.8	-	1.8	• Completed
Total		**2.8**	**5.8**	**8.6**	

Source: Company, JM Financial

- Mindspace had received the ROFO notice for Commerzone Madhapur (Raidurg) from the sponsor KRC in Feb'22 and is evaluating the opportunity.
- Apart from the above ROFO assets, the Sponsor also has other office assets across Mumbai, Pune and Hyderabad that can be offered to the REIT.

Exhibit 18. Other assets owned by the Sponsor Group

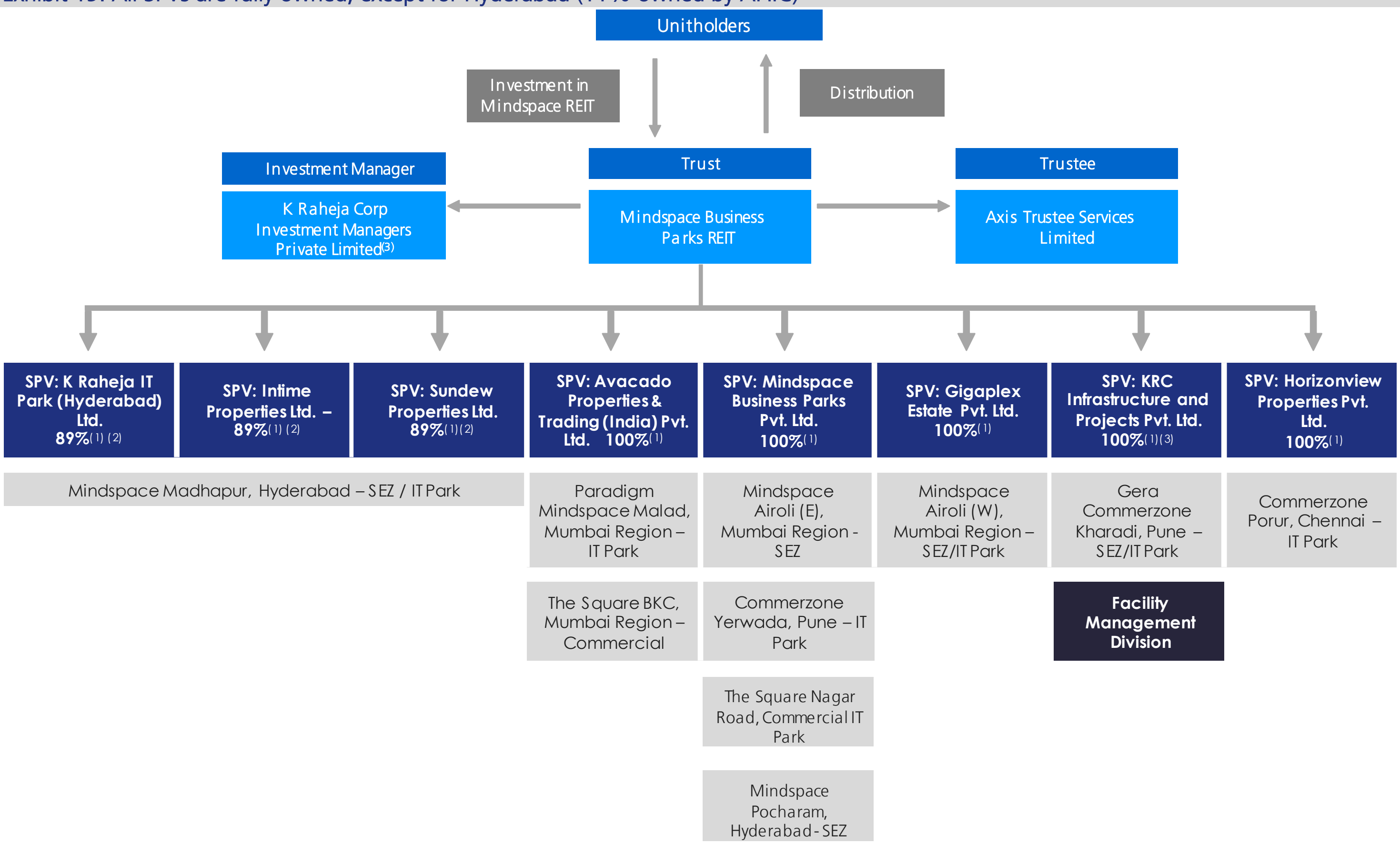
Assets	City	Current status	Total Leasable Area (msf)	Ownership (%)
Altimus Worli	Mumbai	Under construction	1.1	50%
The Square Worli	Mumbai	Under construction	0.4	100%
JP Morgan Building, Kalina	Mumbai	Complete	0.2	100%
Mindspace Shamshabad	Hyderabad	Complete	0.2	100%
Mindspace Gandhinagar	Gandhinagar	Complete	0.5	100%
Total			**2.4**	

Source: Company, JM Financial

Company Overview

- Mindspace Business Parks REIT (Mindspace) is an Indian REIT, sponsored by Anbee Constructions LLP and Cape Trading LLP (members of K Raheja Corp Group). It is being managed by K Raheja Corp Investment Managers LLP, with Axis Trustee Services Ltd as trustee. Mindspace has completed leasable area of 25.9msf and a development pipeline of 6.2msf. Its portfolio comprises five integrated business parks and five independent office assets located in Hyderabad, Pune, Mumbai Metropolitan Area (MMR) and Chennai.
- Mindspace holds eight SPVs, which further hold a total of 10 assets and a facility management division. It owns 100% of the equity share capital of all but three asset SPVs (Intime, KRIT and Sundew) wherein APIIC (Andhra Pradesh Industrial Infrastructure Corporation) holds 11%. The holding structure of the asset SPVs is shown below.

Exhibit 19. All SPVs are fully owned, except for Hyderabad (11% owned by APIIC)



Source: Company, JM Financial

Note:

1. % indicates Mindspace REIT's shareholding in respective Asset SPVs
2. 11% shareholding in these Asset SPVs is held by Telangana State Industrial Infrastructure Corporation Limited (TSIIC)
3. Investment Manager 'K Raheja Corp Investment Managers LLP' has been re-constituted as 'K Raheja Corp Investment Managers Private Limited' w.e.f 07th Jul'23

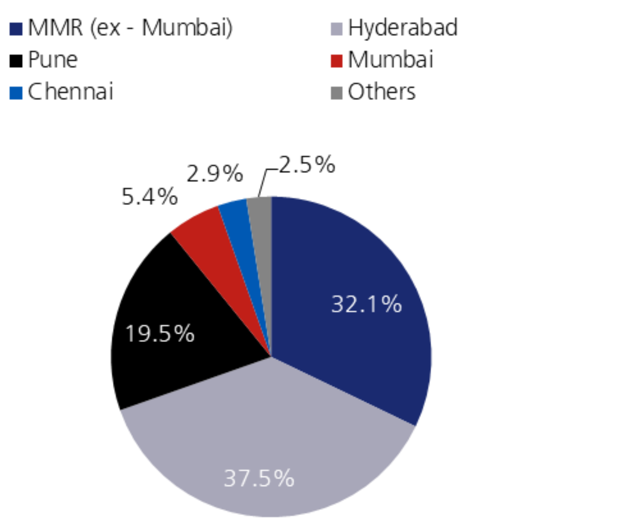
Mindspace Business Parks REIT Asset Portfolio

Exhibit 20.

Asset	Total Leasable Area (msf)	Completed Area (msf)	UC/Future Area (msf)	Occ. (%)	Committed Occ.%)	WALE on area (years)	In-place Rent (INR psf)	Valuation (INR mn) Completed	U/C & Future Dev.	Total Value	% of Total (%)
Mindspace Airoli East	5.6	4.7	0.8	86.4%	86.4%	4.4	57.9	43,446	1,767	45,213	16.1%
Mindspace Airoli West	5.2	4.9	0.3	70.0%	72.6%	9.4	58.6	42,951	1,915	44,866	16.0%
Mindspace Malad	0.7	0.7	-	97.5%	97.5%	3.0	100.5	10,582	-	10,582	3.8%
The Square BKC	0.1	0.1	-	100.0%	100.0%	3.4	240.0	4,653	-	4,653	1.7%
Mumbai Region	**11.6**	**10.5**	**1.2**	**79.7%**	**80.9%**	**6.3**	**65.0**	**101,632**	**3,682**	**105,314**	**37.6%**
Gera Commerzone Kharadi	2.9	1.9	1.0	100.0%	100.0%	9.3	79.4	22,164	3,998	26,162	9.3%
The Square Nagar Road	0.8	0.7	-	87.7%	87.7%	4.9	75.4	8,891	332	9,223	3.3%
Commerzone Yerwada	1.7	1.7	-	97.7%	98.6%	4.3	71.2	19,389		19,389	6.9%
Pune	**5.4**	**4.3**	**1.0**	**97.0%**	**97.3%**	**6.7**	**75.6**	**50,444**	**4,330**	**54,774**	**19.5%**
Mindspace Madhapur	13.1	9.6	3.6	94.9%	95.8%	7.4	64.2	91,927	10,729	102,656	36.6%
Mindspace Pocharam	1.0	0.6	0.4	37.5%	37.5%	0.2	22.2	1,740	587	2,327	0.8%
Hyderabad	**14.1**	**10.2**	**4.0**	**91.6%**	**92.5%**	**7.3**	**63.2**	**93,667**	**11,316**	**104,983**	**37.5%**
Commerzone Porur	0.9	0.9	-	68.3%	96.8%	9.4	64.3	8,205		8,205	2.9%
Chennai	**0.9**	**0.9**	**-**	**68.3%**	**96.8%**	**9.4**	**64.3**	**8,205**	**-**	**8,205**	**2.9%**
Facility Management Business	-	-	-	0.0%	0.0%	-	-	5,936	1,055	6,991	2.5%
Portfolio Total	**32.0**	**25.9**	**6.2**	**86.9%**	**88.8%**	**6.9**	**66.2**	**259,883**	**20,382**	**280,265**	**100.0%**

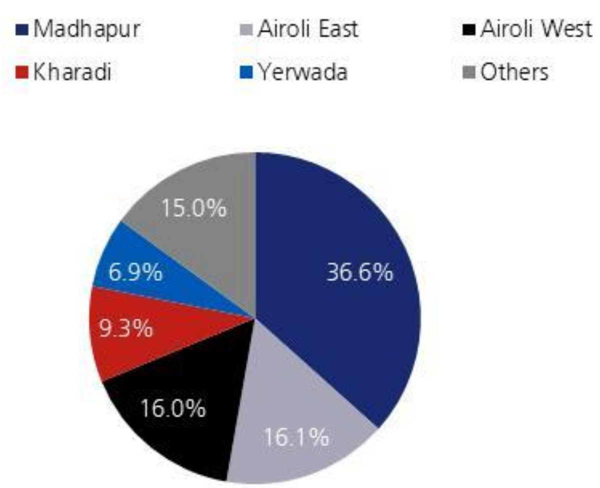
Source: Company, JM Financial

Exhibit 21. Hyderabad and MMR contribute most to GAV



Source: Company, JM Financial

Exhibit 22. Significant value comes from Madhapur



Source: Company, JM Financial

Key Management

Exhibit 23. Management Profile: Experienced Senior Management of the REIT

Management Profile	
Ramesh Nair, Chief Executive Officer	• Alumnus of Harvard Business School and has over 25 years of experience across most facets of the real estate business • Prior to joining Mindspace REIT, he has held positions such as CEO & Country Head of JLL India and CEO, India and MD, Market Development, Asia, of Colliers • Would be responsible for orchestrating the overall success and growth of the REIT by leveraging his strategic acumen, financial expertise, leadership skills and industry knowledge
Preeti Chheda, Chief Financial Officer	• A qualified chartered accountant, a company secretary and a CFA charter holder. • Cleared the Uniform CPA Examination from the Colorado State Board of Accountancy, USA • Completed articleship with PWC and started post qualification career with Marico Industries in the corporate finance team • Prior to joining KRC group, she was handling investor relations for Cairn Energy India Private Limited • She has been associated with KRC group for over 14 years across various roles in commercial real estate including equity and debt fund raising, acquisitions, management of commercial real estate assets, raising private equity for real estate projects, investor relations and financial reporting
Shivaji Nagare, Senior Vice President – Projects	• Holds a bachelor's degree in civil engineering from Maharashtra Institute of Technology, Pune • Prior to joining the KRC group, was associated with Archgroup Consultants, Shapoorji Pallonji and Reliance Engineering Associates • Has over 27 years of experience in civil engineering and project management across commercial, industrial, hospitality and residential sectors in India and Middle East
Rajan MG, Head - Asset & Facilities Management	• Holds Civil Engineering diploma from The Directorate of Technical Education; he is also a member in the Royal Institute of Chartered Surveyors - UK (MRICS) • Also holds Master of Corporate Real Estate (MCR) from Corenet Global and is currently pursuing an advanced management program from IIM-Calcutta • Has over more than 30 years of experience in the areas of Facilities Management, Asset Management, Project Management, CAM, and P&L Management • Prior to Mindspace REIT, Mr. Rajan served at the manager of Embassy REIT as the Head of Operations (India)
Dev Ashish Gupta Head - Commercial Leasing (Western Region)	• Holds a Diploma in Business Administration from IES MCRC, Mumbai • With 20+ years of rich work experience, he has been with the KRC group right since the start of his professional journey • Currently focused on strategically building a robust leasing portfolio in Western markets for Mindspace REIT
O.P. Nandakumar Head - Commercial Leasing (South Region)	• Holds a Bachelor's degree in Industrial Engineering and Management from Bangalore University • Has 20+ years of experience in the Real Estate sector. Prior to Joining K Raheja Corp group, he was heading the commercial office portfolio of Prestige Group for more than 15 years • Leasing portfolio of the group for South India helping in building / expanding its commercial footprint in South India
Chanda Makhija Thadani Compliance Officer	• Fellow Member of the Institute of Company Secretaries of India. • Holds a Master's degree in Commerce, Bachelor's Degree in Law and a Post Graduate Diploma in Securities Law from Mumbai University • Has over 19 years of rich work experience in the fields of Corporate Law, Securities Law and Corporate Governance. • In her previous roles she has been associated with Reliance Industries Limited, Everest Kanto Cylinder Limited, Piramal Enterprises Limited and Tata Play Limited

Source: Company, JM Financial

Board of Directors

Exhibit 24. Board of Directors

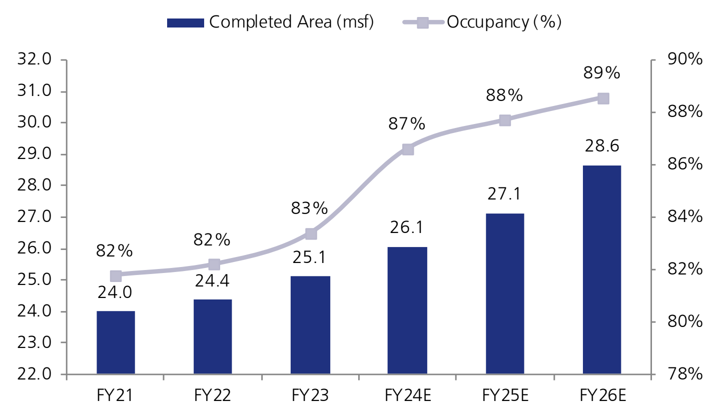
Board Profile	
Ravi C. Raheja Group President of Non-Executive, Non-Independent Director	• Holds a bachelor's degree in commerce from the University of Mumbai and an MBA from the London Business School • Over 27 years of experience across real estate, retail and hospitality industry • Plays an active role in the finance, corporate strategy and planning teams • Has played a key role in steering KRC group's business towards building a robust portfolio of rent-yielding assets • Served as the Chairman (Mumbai chapter) of Indian Green Building Council
Neel C. Raheja Non-Executive, Non-Independent Director	• Holds a bachelor's degree in law and a master's degree in commerce from the University of Mumbai • Completed the Owner/President Management Program from Harvard Business School • Led diversification of the KRC group's business from real estate development to retail and hospitality for the last two decades • Played a key role in the organisation's presence in retail brands namely Shoppers Stop, Inorbit Mall and Crossword • Serves as the Chairman of the CII-National Committee on Real Estate and Housing, the Chairman of the India chapter of APREA and was the President of the NAREDCO (west) • Has over 21 years of experience across the real estate, hospitality and retail industry
Manish Kejriwal Independent Director	• Received an Bachelor of Arts from Dartmouth College and an MBA from Harvard University (Baker Scholar) • Managing Partner and Founder of Kedaara Capital, a private equity firm. • Founded the India office of Temasek Holdings Pte. Ltd., where he headed all its investments and other activities. Before that, he was a Partner at Mckinsey & Company Inc. • Founder trustee of Ashoka University and a former member of the Harvard Alumni Board. • Also the Co-chair of the CII National Committee on Private Equity and Venture Capital and was also a member of the Alternative Investments Policy Advisory Committee, constituted by the Securities & Exchange Board of India (SEBI)
Deepak Ghaisas Independent Director	• Holds a bachelor's degree in commerce from the University of Bombay • A qualified chartered accountant, cost accountant and company secretary • Chairman of Gencoval Group of Companies and Director on the board of directors of Stemade Biotech Private Limited • Currently serves as currently Chairperson on the Board of Governors of Indian Institute of Information Technology & Design, Jabalpur and also of IIT, Gwalior
Manisha Girotra Independent Director	• 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 • Currently the Chief Executive Officer of Moelis and Company in India. She was previously associated with UBS Securities India as the Chairperson and the country head • Was nominated in the 'Top 50 Women in Business' by Forbes & Business Today and was named one of the 'Top 50 Women to Watch' by The Wall Street Journal • Currently a Director on the boards of Naspers, Prosus, Ashok Leyland Limited and a trustee of the Neurology Foundation and Trust
Bobby Parikh: Independent Director	• Holds a bachelor's degree in commerce from the University of Mumbai and is a qualified chartered accountant • Has several years of experience in advising clients on business model identification, M&A and business reorganisation • Was the co-founder of BMR Advisors, former CEO of Ernst & Young in India and Country Managing Partner of Arthur Andersen
Vinod Rohira Non-Executive, Non-Independent Director	• Holds a master's degree in business administration from University of Chicago • Began his career with the KRC group 20 years back and helped in development of over c.25msf of commercial real estate • Currently, he is the Managing Director and CEO for the Commercial Real Estate Business of KRC group focussed on commercial business' strategic operations with a particular emphasis on stakeholders' management and business development • Prior to this, Vinod has held office as the CEO of the Investment Manager of Mindspace REIT

Source: Company, JM Financial

Financials

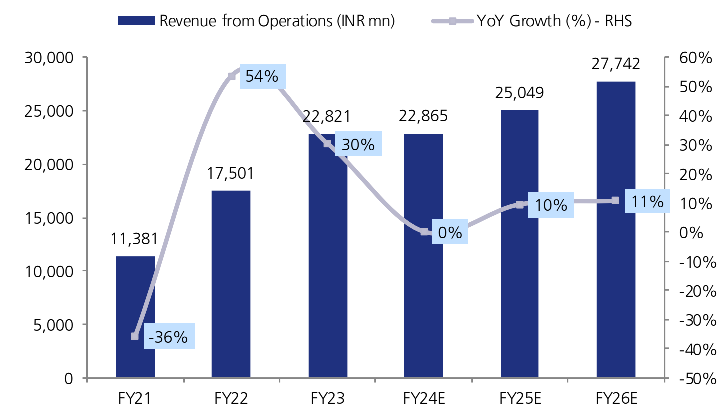
- We estimate Rentals/NOI FY23-FY26E CAGR of 9.6%/10.1% respectively. Across FY24E and FY25E, 11% of the rentals are expiring, which should help in improving occupancies across the portfolio.
- We expect occupancies to be steady, even as 1.5msf of area gets completed in the next 2 years. NOI margins will also be stable, as in the recent past.

Exhibit 25. Occupancies inch up gradually



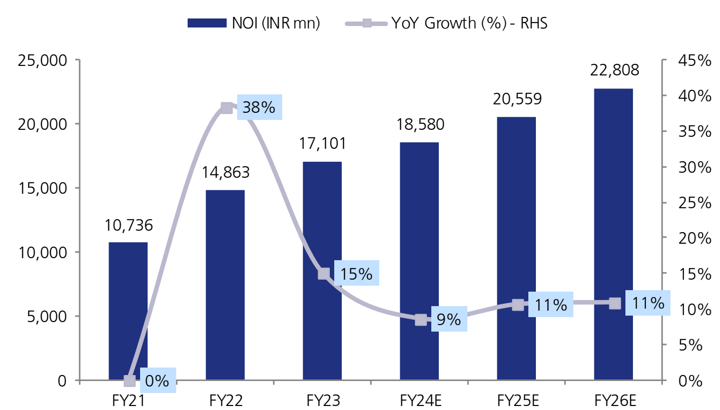
Source: Company, JM Financial

Exhibit 26. Revenue growth led by escalations and new leasing



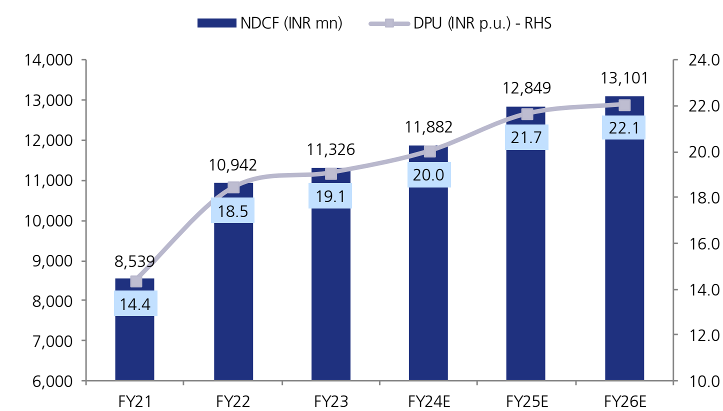
Source: Company, JM Financial

Exhibit 27. Steady NOI growth



Source: Company, JM Financial

Exhibit 28. NDCF lower due to higher interest costs and taxes



Source: Company, JM Financial

Exhibit 29. NOI to accumulate at a FY23-FY26E CAGR of 10.1%

Particulars (INR mn unless specified)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY23-26E CAGR (%)
Completed Area (msf)	24.0	24.4	25.1	26.1	27.1	28.6	
Facility Rentals	13,213	14,359	16,863	18,278	20,019	22,184	9.6%
Growth (%)		9%	17%	8%	10%	11%	
Revenue from Operations	11,381	17,501	22,821	22,865	25,049	27,742	6.7%
Growth (%)		54%	30%	0%	10%	11%	
NOI	10,736	14,863	17,101	18,580	20,559	22,808	10.1%
Growth (%)		38%	15%	9%	11%	11%	
NOI Margin (%)	81%	104%	101%	102%	103%	103%	
EBITDA	8,333	13,737	15,596	17,343	19,219	21,289	10.9%
Growth (%)		65%	14%	11%	11%	11%	
EBITDA Margin (%)	63%	96%	92%	95%	96%	96%	
NDCF	8,539	10,942	11,326	11,882	12,849	13,101	5.0%

Source: Company, JM Financial

Exhibit 30. Financial snapshot

INR mn	1QFY24	1QFY23	YoY(%)	4QFY23	QoQ(%)	FY23	FY24E	FY23-24E YoY (%)
Net Sales	5,898	4,813	23%	5,667	4%	22,821	22,865	0%
Cost of Sales	488	253	93%	448	9%	3,013	849	-72%
Gross Margin (%)	92%	95%	-302%	92%	-37bps	87%	96%	949bps
Employee Expenses	78	66	18%	65	20%	285	299	5%
Other Expenses	1,091	887	23%	1,107	-1%	4,147	4,595	11%
EBITDA	4,241	3,607	18%	4,047	5%	15,376	17,123	11%
EBITDA Margin (%)	71.9%	74.9%	-304bps	71.4%	49bps	67.4%	74.9%	751bps
Depreciation	933	847	10%	920	1%	3,554	3,823	8%
Interest Costs	1,066	719	48%	977	9%	3,431	4,269	24%
Other Income	119	45	164%	56	113%	220	220	0%
Exceptional Items	-18	103	-117%	-1,396	-99%	-1,368	0	-100%
PBT (incl extraordinary items)	2,343	2,189	7%	810	189%	7,243	9,250	28%
Tax	974	905	8%	1,149	-15%	4,299	3,167	-26%
PAT	1,369	1,284	7%	-339	-504%	2,944	6,083	107%
Minority Interest	94	102	-8%	-47	-300%	249	427	72%
PAT after Minority	1,275	1,182	8%	(292)	-537%	2,695	5,656	110%
NDCF	**2,864**	**2,818**	**2%**	**2,860**	**0%**	**11,354**	**11,882**	**5%**

Source: Company, JM Financial

Exhibit 31. NDCF walkdown

Particulars (INR mn)	FY21	FY22	FY23
Revenue from Operations	12,845	17,501	22,968
Property Taxes & Insurance	-460	-646	-653
Other Direct Operating Expenses	-1,647	-1,989	-5,215
Net Operating Income (NOI)	**10,736**	**14,863**	**17,101**
Property Management Fees	-323	-436	-498
Net Other Expenses	-447	-650	-715
EBITDA	**9,966**	**13,776**	**15,887**
Cash Taxes (Net of Refunds)	-312	-1780	-1719
Working Capital changes and other changes	-902	-687	356
Cashflow from Operations	**8,752**	**11,308**	**14,527**
Capex including capitalized Interest	-3,458	-5,792	-8,515
Net Debt (repayment) / drawdown	5,157	8,173	8,038
Proceeds from sale of Pocharam Land	0	1,200	1,200
Proceeds temporarily utilised to repay debt / invested	0	-1,200	5,586
Finance Costs paid for the period (excluding interest to REIT)	-1242	-1461	-2034
Proceeds to shareholders other than Mindspace REIT	-649	-831	-800
NDCF (SPV Level)	**8,561**	**11,397**	**18,000**
Net Distributions from SPV to REIT	8,734	11,419	12,503
Other Inflows / (Outflows) at REIT Level	-162	-434	-1151
NDCF (REIT Level)	**8,573**	**10,985**	**11,354**
Distributions	8,539	10,942	11,326
Dividend	7,786	10,152	10,389
Interest	753	784	913
Other Income	0	6	24
Distributions	**4.8**	**18.5**	**19.1**
Dividend	4.4	17.1	17.5
Interest	0.4	1.3	1.5
Other Income	0.0	0.0	0.0

Source: Company, JM Financial

Valuation

- We assume 11.5% WACC and use 8% terminal cap rate to arrive at a Sep'24 NAV of INR 345 per share. (17.3% total returns potential; 10.6% capital appreciation and 6.6% NDCF yield).

Exhibit 32. Sep'24 SOTP-based TP

Sep'24 TP (INR mn unless specified)	
Enterprise Value	**271,313**
Less: Net debt	68,147
Equity Value	**203,167**
Shares Outstanding (mn)	593
Target Price (INR)	**345**
CMP (INR)	312
Upside (%)	11%

Source: Company, JM Financial

Exhibit 33. Total returns

Total Return till Sep'24	(%)
Capital Appreciation	10.6%
Dividend Received	6.6%
Total	**17.3%**

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	17,501	22,821	22,865	25,049	27,742
Sales Growth	53.8%	30.4%	0.2%	9.5%	10.8%
Other Operating Income	0	0	0	0	0
Total Revenue	**17,501**	**22,821**	**22,865**	**25,049**	**27,742**
Cost of Goods Sold/Op. Exp	450	3,013	849	866	883
Personnel Cost	226	285	299	314	330
Other Expenses	3,176	4,147	4,595	4,870	5,461
EBITDA	**13,649**	**15,376**	**17,123**	**18,999**	**21,069**
EBITDA Margin	78.0%	67.4%	74.9%	75.8%	75.9%
EBITDA Growth	64.8%	12.7%	11.4%	11.0%	10.9%
Depn. & Amort.	3,289	3,554	3,823	3,978	4,086
EBIT	10,360	11,822	13,299	15,021	16,983
Other Income	164	361	220	220	220
Finance Cost	2,537	3,431	4,269	5,043	5,731
PBT before Excep. & Forex	7,987	8,752	9,250	10,198	11,472
Excep. & Forex Inc./Loss(-)	-843	0	0	0	0
PBT	7,144	8,752	9,250	10,198	11,472
Taxes	2,670	4,299	3,167	2,976	3,380
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	235	249	427	418	407
Reported Net Profit	4,239	4,204	5,656	6,805	7,685
Adjusted Net Profit	**5,082**	**4,204**	**5,656**	**6,805**	**7,685**
Net Margin	29.0%	18.4%	24.7%	27.2%	27.7%
Diluted Share Cap. (mn)	593.0	593.0	593.0	593.0	593.0
Diluted EPS (INR)	**8.6**	**7.1**	**9.5**	**11.5**	**13.0**
Diluted EPS Growth	51.7%	-17.3%	34.5%	20.3%	12.9%
Total Dividend + Tax	10,942	11,326	11,882	12,849	13,101
Dividend Per Share (INR)	18.5	19.1	20.0	21.7	22.1

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	156,205	147,827	141,601	135,556	130,141
Share Capital	0	0	0	0	0
Reserves & Surplus	156,205	147,827	141,601	135,556	130,141
Preference Share Capital	0	0	0	0	0
Minority Interest	8,507	7,955	7,880	7,807	7,728
Total Loans	44,480	54,535	65,783	78,529	87,262
Def. Tax Liab. / Assets (-)	-382	2,021	-497	-521	-548
Total - Equity & Liab.	**208,810**	**212,338**	**214,768**	**221,371**	**224,584**
Net Fixed Assets	212,230	214,308	221,130	226,897	229,545
Gross Fixed Assets	212,166	223,427	240,366	250,111	256,845
Intangible Assets	1	1	1	1	1
Less: Depn. & Amort.	13,433	16,987	20,810	24,789	28,874
Capital WIP	13,496	7,867	1,573	1,573	1,573
Investments	23	29	30	32	34
Current Assets	10,231	12,421	13,231	15,404	16,392
Inventories	26	72	76	79	83
Sundry Debtors	210	572	601	631	662
Cash & Bank Balances	982	2,843	3,174	4,844	5,305
Loans & Advances	0	0	0	0	0
Other Current Assets	9,013	8,934	9,381	9,850	10,342
Current Liab. & Prov.	13,674	14,420	19,623	20,962	21,387
Current Liabilities	5,709	5,525	5,801	6,091	6,396
Provisions & Others	7,965	8,895	13,822	14,870	14,991
Net Current Assets	-3,443	-1,999	-6,392	-5,558	-4,995
Total – Assets	**208,810**	**212,338**	**214,768**	**221,371**	**224,584**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	7,987	8,752	9,250	10,198	11,472
Depn. & Amort.	3,289	3,554	3,823	3,978	4,086
Net Interest Exp. / Inc. (-)	2,609	3,384	4,049	4,823	5,511
Inc (-) / Dec in WCap.	-500	-207	1,207	810	-129
Others	856	1,551	0	0	0
Taxes Paid	-1,780	-1,736	-3,167	-2,976	-3,380
Operating Cash Flow	**12,461**	**15,298**	**15,162**	**16,834**	**17,560**
Capex	-4,547	-7,666	-10,645	-9,745	-6,734
Free Cash Flow	7,914	7,632	4,517	7,089	10,826
Inc (-) / Dec in Investments	0	0	0	0	0
Others	0	0	0	0	0
Investing Cash Flow	**-4,547**	**-7,666**	**-10,645**	**-9,745**	**-6,734**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-11,892	-12,009	-12,384	-13,340	-13,587
Inc / Dec (-) in Loans	6,509	11,331	12,248	12,745	8,734
Others	-2,160	-3,885	-4,049	-4,823	-5,511
Financing Cash Flow	**-7,543**	**-4,563**	**-4,185**	**-5,417**	**-10,364**
Inc / Dec (-) in Cash	**371**	**3,069**	**333**	**1,671**	**462**
Opening Cash Balance	1,465	982	2,843	3,174	4,844
Closing Cash Balance	982	2,843	3,174	4,844	5,305

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	29.0%	18.4%	24.7%	27.2%	27.7%
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Leverage Factor (x)	1.3	1.4	1.5	1.6	1.7
RoE	3.2%	2.8%	3.9%	4.9%	5.8%

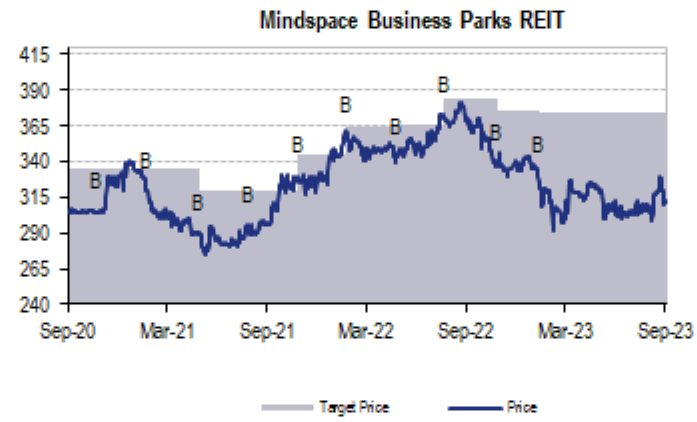
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	263.4	249.3	238.8	228.6	219.5
ROIC	3.1%	2.9%	4.2%	5.0%	5.5%
ROE	3.2%	2.8%	3.9%	4.9%	5.8%
Net Debt/Equity (x)	0.3	0.3	0.4	0.5	0.6
P/E (x)	36.5	44.2	32.8	27.3	24.2
P/B (x)	1.2	1.3	1.3	1.4	1.4
EV/EBITDA (x)	17.4	16.0	15.0	14.1	13.1
EV/Sales (x)	13.6	10.7	11.2	10.7	9.9
Debtor days	4	9	10	9	9
Inventory days	1	1	1	1	1
Creditor days	67	35	47	47	45

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Sep-20	Buy	335	
13-Nov-20	Buy	335	0.0
12-Feb-21	Buy	335	0.2
18-May-21	Buy	320	-4.5
16-Aug-21	Buy	320	-0.1
16-Nov-21	Buy	345	7.6
14-Feb-22	Buy	365	5.8
15-May-22	Buy	365	0.2
11-Aug-22	Buy	385	5.3
15-Nov-22	Buy	375	-2.5
31-Jan-23	Buy	375	0.0

Recommendation History



Appendix 1: Indian Office Market trends

Exhibit 1. Vacancies in top seven cities

Vacancy (%)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Bengaluru	6.5%	8.0%	8.1%	9.0%	9.3%	8.9%	9.0%	9.6%	8.2%	8.0%	9.5%	9.5%	10.8%
Hyderabad	6.7%	8.3%	8.4%	13.0%	14.0%	13.3%	15.1%	17.3%	19.5%	21.8%	21.1%	20.7%	23.8%
Pune	5.5%	5.9%	7.2%	6.7%	6.5%	6.9%	8.5%	10.7%	12.5%	11.7%	11.6%	10.7%	9.7%
Mumbai	18.8%	19.8%	20.9%	21.1%	22.1%	22.8%	23.1%	23.8%	23.1%	23.2%	21.0%	20.4%	20.2%
Delhi NCR	24.0%	24.0%	25.1%	26.4%	26.6%	27.7%	26.7%	26.6%	26.1%	27.0%	25.6%	25.2%	24.6%
Kolkata	33.5%	32.5%	32.7%	32.3%	32.2%	31.9%	31.1%	30.6%	29.9%	29.2%	29.0%	29.0%	28.6%
Chennai	9.3%	9.1%	11.7%	11.4%	11.4%	12.1%	11.7%	13.6%	16.3%	16.4%	15.1%	14.3%	15.7%
Total	**13.8%**	**14.4%**	**15.2%**	**16.2%**	**16.6%**	**16.9%**	**17.0%**	**17.9%**	**17.9%**	**18.3%**	**17.8%**	**17.4%**	**18.0%**

Source: Cushman and Wakefield, JM Financial

Exhibit 2. Bengaluru is the largest office market in India

City wise Inventory (msf)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Bengaluru	148	152	154	156	158	159	163	166	168	172	174	174	179
Hyderabad	62	65	66	70	72	73	77	80	84	88	90	90	95
Pune	53	54	55	55	55	55	57	59	62	63	64	65	66
Mumbai	98	98	100	101	103	105	106	107	107	109	109	109	109
Delhi NCR	116	116	119	122	122	125	125	127	128	131	133	134	134
Kolkata	26	26	26	26	26	26	26	26	26	26	26	27	27
Chennai	51	51	54	54	54	55	55	56	58	60	60	60	62
Total	**555**	**562**	**575**	**583**	**591**	**597**	**609**	**622**	**635**	**648**	**656**	**659**	**672**

Source: Cushman and Wakefield, JM Financial

Exhibit 3. Quarterly office absorption trends

Quarterly Net Absorption (msf)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Bengaluru	-0.1	1.7	1.9	1.7	1.4	1.1	3.5	1.8	4.8	3.7	0.2	1.5	0.6
Hyderabad	1.8	1.1	1.7	0.6	0.9	1.6	2.5	0.6	1.5	1.2	2.2	1.6	1.5
Pune	0.1	0.2	0.6	0.3	0.2	0.1	0.6	1.4	0.5	0.9	1.2	1.6	1.2
Mumbai	1.6	-0.3	0.4	0.2	1.0	0.2	0.5	0.6	0.8	0.7	2.7	0.7	0.5
Delhi NCR	-0.3	0.1	0.8	0.4	0.1	0.8	1.4	1.3	1.3	1.3	3.2	1.7	0.9
Kolkata	0.1	0.0	0.0	0.2	0.0	0.1	0.2	0.1	0.4	0.0	0.3	0.6	0.2
Chennai	0.0	0.1	1.2	0.1	0.0	0.3	0.3	0.5	0.2	0.9	1.1	0.5	0.9
Total	**3.1**	**2.9**	**6.5**	**3.6**	**3.6**	**4.2**	**8.9**	**6.4**	**9.5**	**8.7**	**10.8**	**8.1**	**5.9**

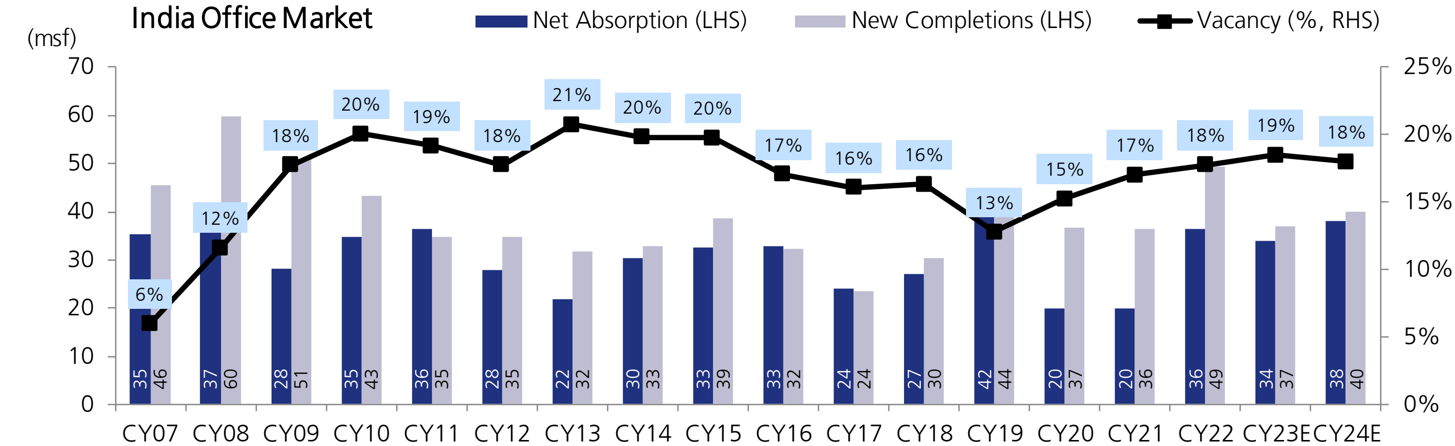
Source: Cushman and Wakefield, JM Financial

Exhibit 4. Average city wise in-place rentals

Rent (INR psf pm)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Bengaluru	82	83	83	83	83	83	83	83	83	83	83	83	83
Hyderabad	62	61	61	61	61	61	61	61	61	61	61	61	65
Pune	71	71	71	71	71	71	71	72	74	75	75	75	76
Mumbai	122	120	120	120	120	119	119	117	118	119	119	120	120
Delhi NCR	65	65	65	64	64	63	62	62	62	62	62	63	64
Kolkata	47	47	48	48	48	48	48	48	48	48	49	49	48
Chennai	58	58	57	62	58	57	57	58	58	58	58	59	59

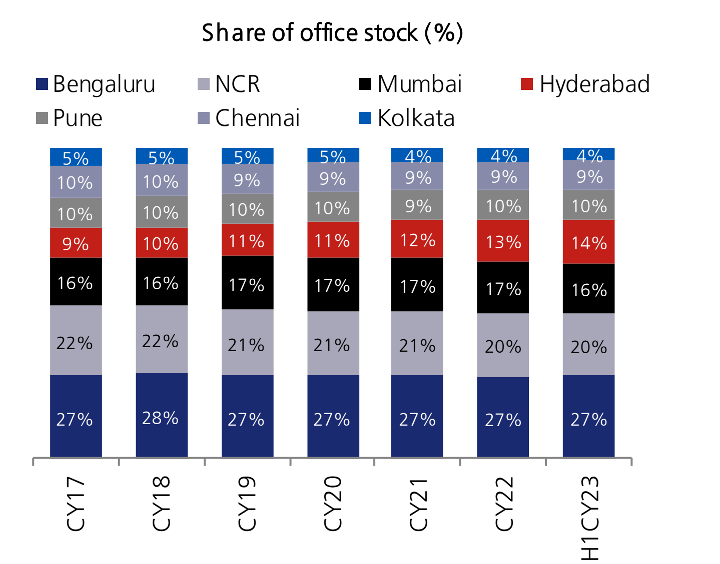
Source: Cushman and Wakefield, JM Financial

Exhibit 5. Vacancies have increased post Covid-19 outbreak



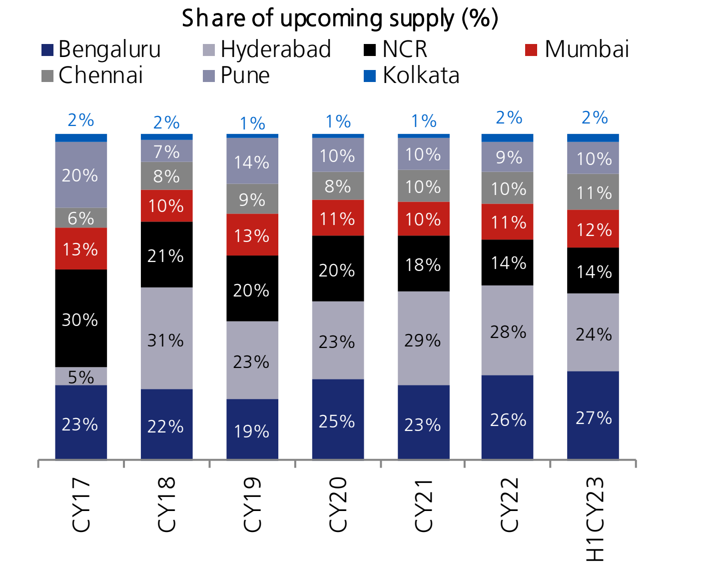
Source: Cushman and Wakefield, JM Financial, Internal Estimates

Exhibit 6. Bengaluru is the largest office market



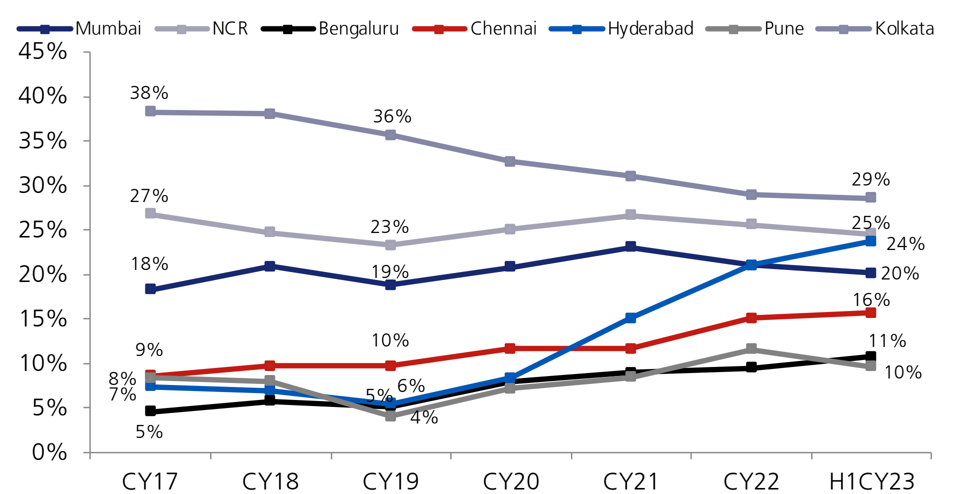
Source: Cushman and Wakefield, JM Financial

Exhibit 7. Hyderabad has disproportionate share of supply



Source: Cushman and Wakefield, JM Financial

Exhibit 8. Vacancies in Hyderabad have risen significantly



Source: Cushman and Wakefield, JM Financial

Indian office market was in an upcycle from CY14-CY20, before Covid-19. Since CY20-21, occupiers have rationalised their expansion plans and hence demand has been negatively impacted

Activity levels in Hyderabad had gone up since CY15 (as political stability returned). Demand since Covid-19 has been affected, and with commissioning of planned developments vacancies have started rising.

Bengaluru

Supply: In 1QFY24, Bengaluru added a supply of 2.6msf of Grade-A office inventory, which came with limited pre-commitments. Another ~10msf of new supply is likely to be completed by 3QFY24.

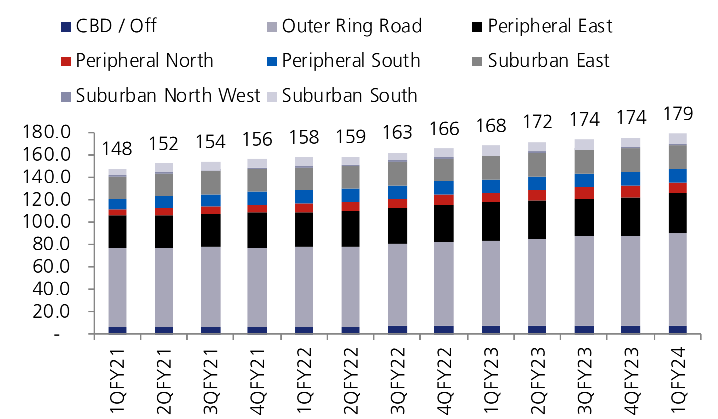
Leasing: Net absorption was low at 0.6msf in Q1FY24, owing to low pre-commitments in the newly added supply. 6MCY23 net leasing stood at 2.1msf, substantially lower than 6MCY22, as 1QFY23 had recorded the historic high leasing volume (6.9msf).

Vacancy: Entire supply in Q2 was in the ORR micro-market, as a result of which the ORR vacancy rate rose sharply. However, other micro-markets such as Peripheral East, Peripheral North, and Suburban South witnessed fall in vacancies owing to no new supply. On a city-wide basis, vacancies increased by ~100 basis points to 10.8% in Q1FY24.

Rent: Despite a QoQ vacancy increase at the city level, rentals remained range-bound, and this momentum is likely to sustain in the near term.

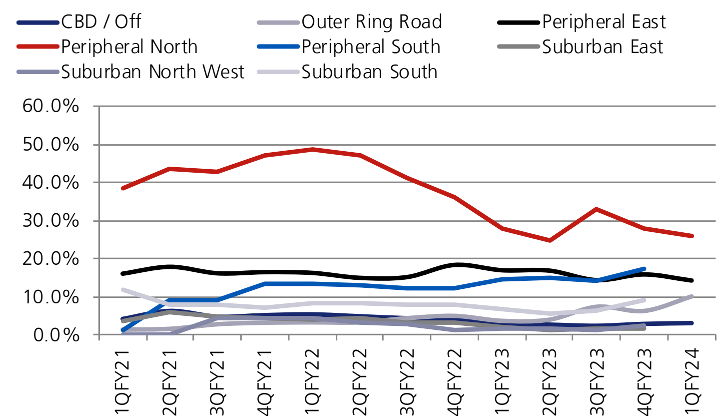
Key listed stocks: Embassy REIT, Prestige, and Brigade have a large exposure to the Bengaluru office market.

Exhibit 9. Outer Ring Road is the largest micro-market



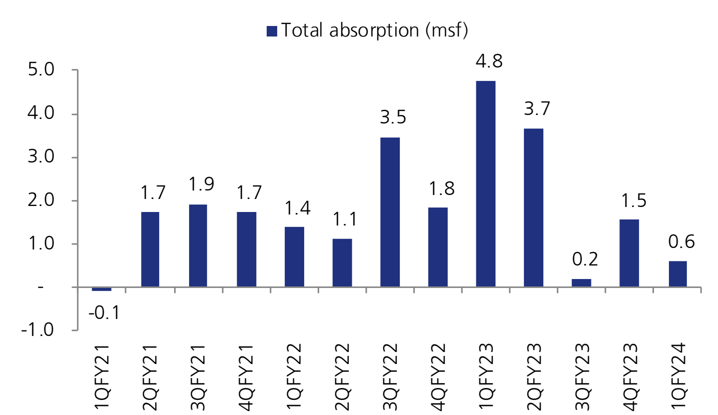
Source: Cushman and Wakefield, JM Financial

Exhibit 10. Vacancy trends across micro-markets



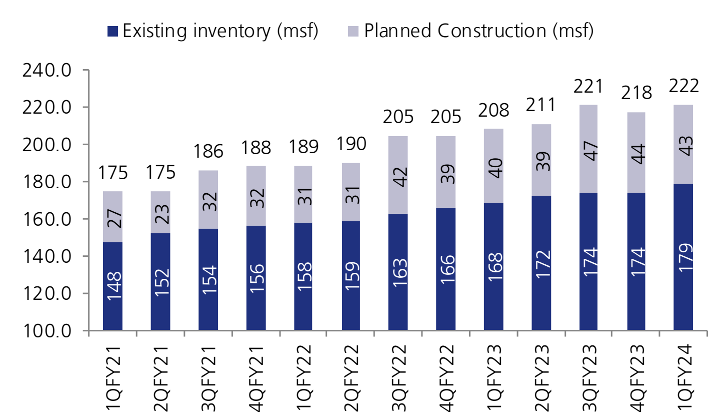
Source: Cushman and Wakefield, JM Financial

Exhibit 11. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

Exhibit 12. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Hyderabad

Supply: In 1QFY24, Hyderabad added 5.4msf of new supply (~2x YoY), while for 6MCY23 supply stood at 5.9msf. Another 3-4msf is estimated to be added in 3QFY24.

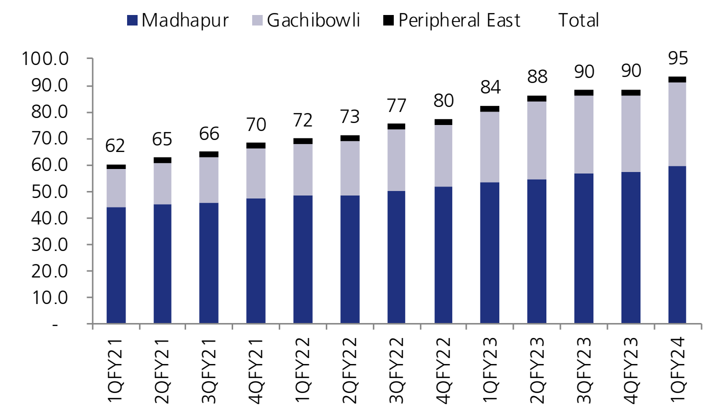
Leasing: Gross leasing in 1QFY24 came in at 2.7msf, of which 2.1msf accounted for fresh leasing. Net absorption stood at 1.5msf for the quarter and is expected to reach pre-pandemic levels as office space demand gathers momentum.

Vacancy: City-wide vacancy increased to 23.8% in 1QFY24 (+430bps YoY, +310bps QoQ), as only ~20% of the new completions got absorbed in 1QFY24. Madhapur recorded a rise of 270bps QoQ, while vacancy levels in Gachibowli increased by 360bps on a QoQ basis.

Rent: Despite the vacancy spike in both Madhapur and Gachibowli, headline rents grew by 6.6% QoQ.

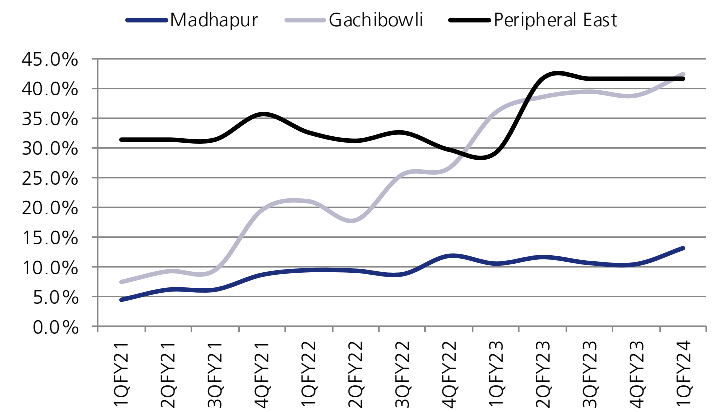
Key listed stocks: Mindspace REIT has a large exposure to the Madhapur micro-market in Hyderabad with the presence of a Right of First Offer asset also.

Exhibit 13. Madhapur is the largest market in Hyderabad



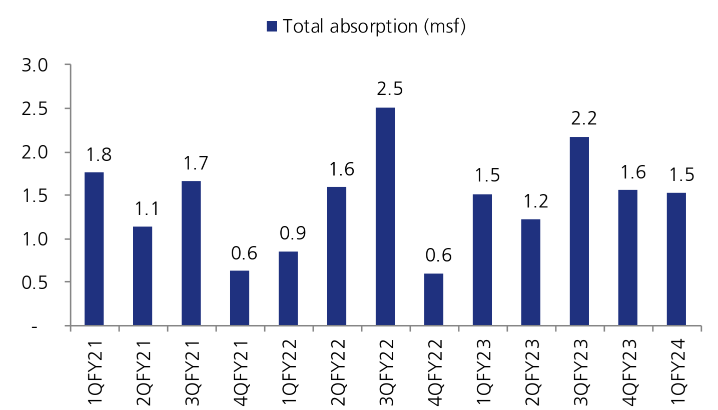
Source: Cushman and Wakefield, JM Financial

Exhibit 14. Vacancy trends across micro-markets



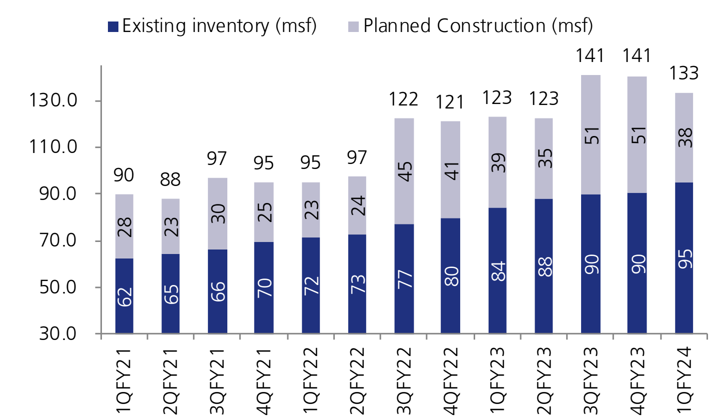
Source: Cushman and Wakefield, JM Financial

Exhibit 15. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

Exhibit 16. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Mumbai Metropolitan Region (MMR)

Supply: New additions were 0.4msf in the last 6 months but ~4.7msf of new supply is anticipated in the next 6 months (~30% pre-committed). Supply of ~18.30 msf is expected to come in from 2QFY24 to 4QFY26, majorly in Andheri-Kurla, Thane-Belapur Road, and Central Suburbs micro-markets.

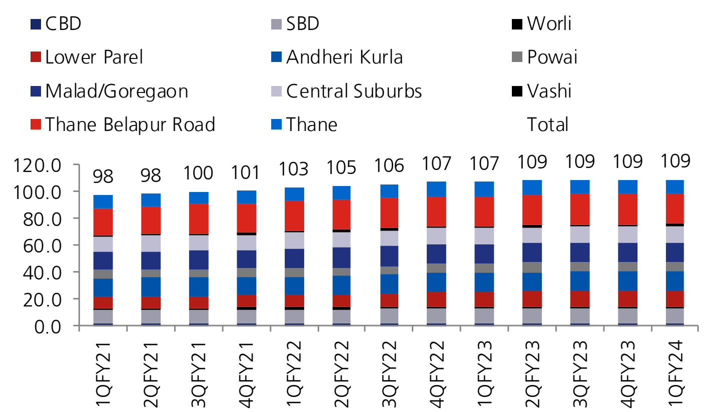
Leasing: Witnessed gross leasing of 2.7msf (down 9% YoY & down 4% QoQ) in 1QFY24. Net absorption of 0.5msf happened in 1QFY24 (down 28% YoY & down 20% QoQ) as there were a couple of exits in select suburban markets.

Vacancy: Overall vacancy has fallen to 20.2% (down 20bps QoQ) as of 1QFY24.

Rent: Overall city-wide market rentals have been stable across submarkets from the previous quarter.

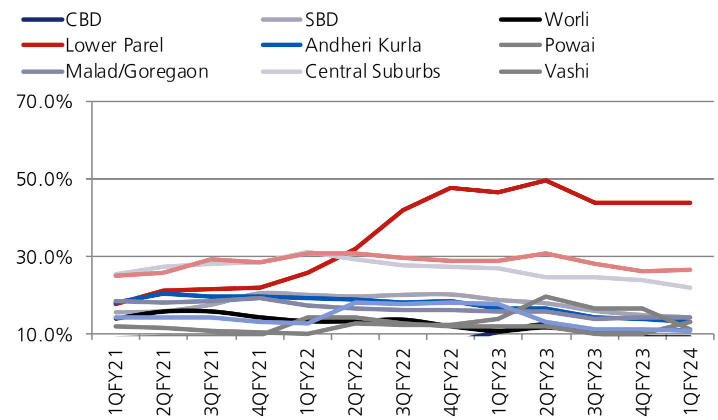
Key listed stocks: Mindspace REIT and Embassy REIT have a large exposure to the MMR office market. Listed real estate companies namely Oberoi Realty, Macrotech Developers and Phoenix Mills also have some exposure to CRE in MMR.

Exhibit 17. Micro-market-wise inventory



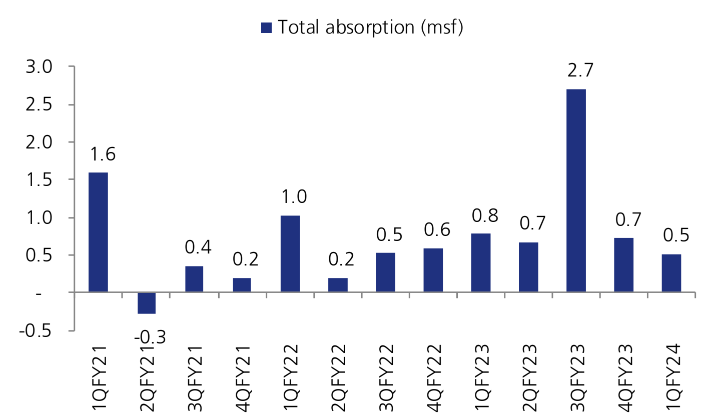
Source: Cushman and Wakefield, JM Financial

Exhibit 18. Vacancy trends across micro-markets



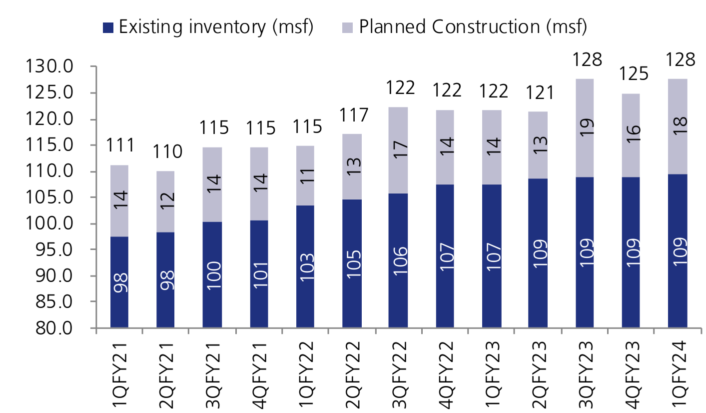
Source: Cushman and Wakefield, JM Financial

Exhibit 19. Net absorption in line with the average of last 2 years



Source: Cushman and Wakefield, JM Financial

Exhibit 20. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Delhi NCR

Supply: No new completions in this quarter; however, 4.6msf is expected to be added over 6MCY23.

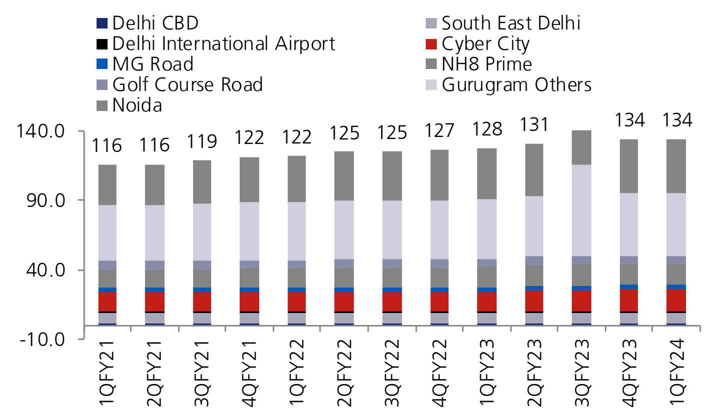
Leasing: Gross leasing stood at 3.6msf (+6% YoY; +24% QoQ) in 1QFY24 while net absorption was recorded at 1.3msf of net absorption (down 10% YoY; +8% QoQ). Fresh leases accounted for majority of the demand, holding a share of 78%, followed by pre-commitments and term renewals with 15% and 6% shares respectively.

Vacancy: Vacancy levels stood at 24.6% as of 1QFY24 (down 68bps QoQ, down 140bps YoY) due to the absence of new completions during the quarter combined with strong leasing activity.

Rent: City-level rentals slightly increased to INR 63.6/sf/month (+1.8% YoY, +1.3% QoQ).

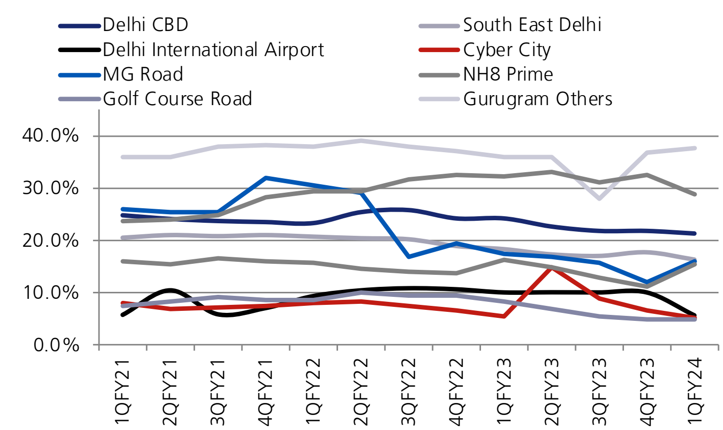
Key listed stocks: DLF, Brookfield REIT and Embassy REIT have an exposure to the Delhi NCR office market.

Exhibit 21. Micro-market-wise inventory



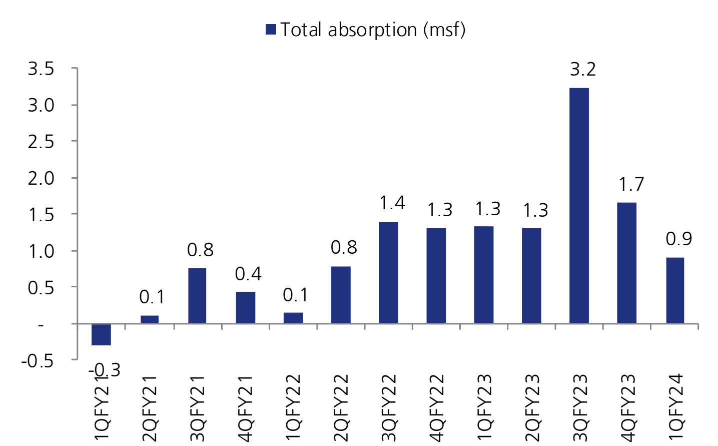
Source: Cushman and Wakefield, JM Financial

Exhibit 22. Vacancy trends across micro-markets



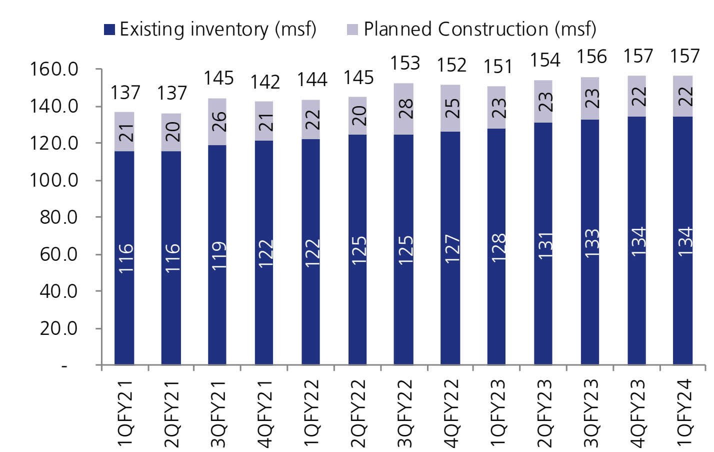
Source: Cushman and Wakefield, JM Financial

Exhibit 23. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

Exhibit 24. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Pune

Supply: Average supply over the last 6-7 quarters was ~1.4msf, while in 1QFY24 it came in lower at 0.7 msf (down 41% QoQ and down 71% YoY). A major part of the new supply in 2Q was in SBD East (52%). It is expected that ~15.6msf new supply will come in the next 18-24 months.

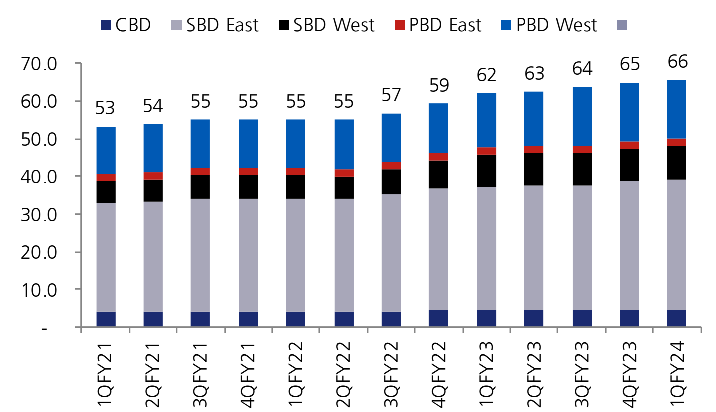
Leasing: Gross leasing stood at 3.1msf in 1QFY24 (+6% YoY; flat QoQ) while net absorption was 1.2msf (+51% YoY; down 20% QoQ).

Vacancy: Overall city-wide vacancy witnessed a 100bps drop from 10.7% in Q4FY23 to 9.7% as of 1QFY24 due to healthy space take-up in the new developments and limited new supply in the quarter.

Rent: Overall healthy office demand has induced a quarterly 1-2% uptick in rentals in select submarkets.

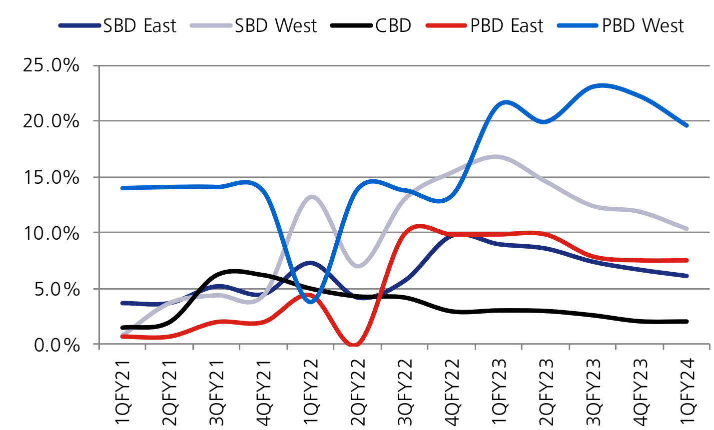
Key listed stocks: Mindspace REIT and Embassy REIT have exposure to the Pune office market.

Exhibit 25. Micro-market-wise inventory



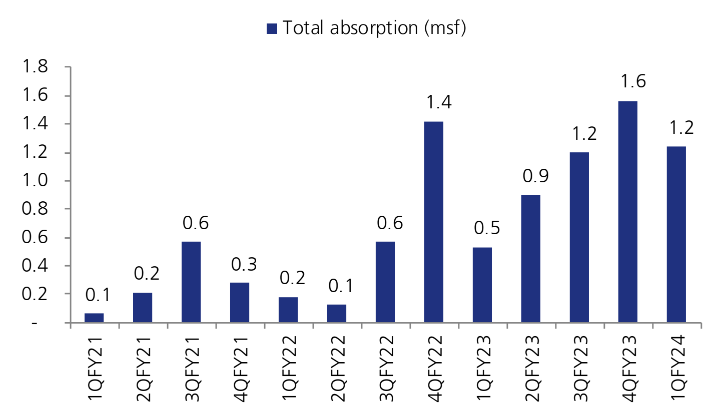
Source: Cushman and Wakefield, JM Financial

Exhibit 26. Vacancy trends across micro-markets



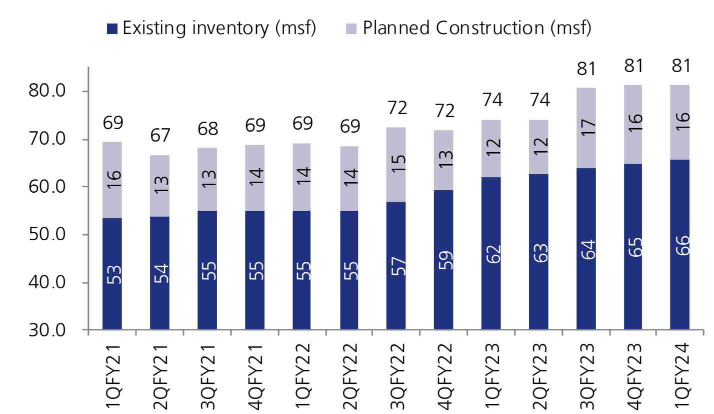
Source: Cushman and Wakefield, JM Financial

Exhibit 27. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

Exhibit 28. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Chennai

Supply: Chennai upcoming supply of around ~14-15msf over the next two years. 2.1msf of Grade A office was added in 1QFY24.

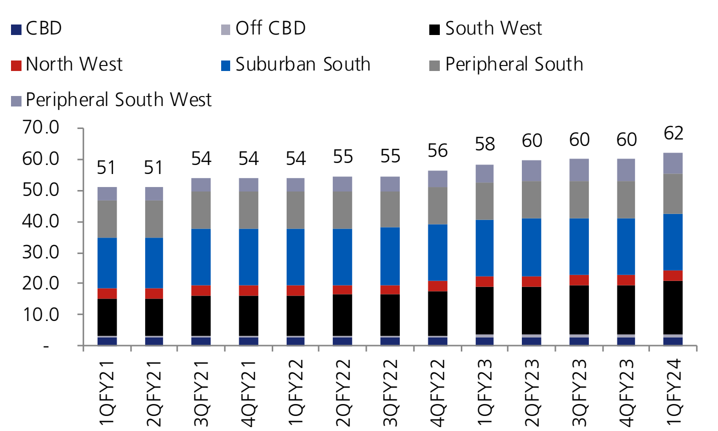
Leasing: Gross leasing stood at 1.6msf in 1QFY24 (down 24% QoQ) led by new leasing, which has a share of 89%. Net absorption was steady at 0.9msf as a significant amount of pre-leased space got occupied.

Vacancy: In 1QFY24, city-wide vacancy marginally increased to 15.7% (+140bps QoQ) as vacancies increased particularly in the South-west micro-market.

Rent: Rentals increased slightly across most markets, resulting in a marginal rise in overall rentals.

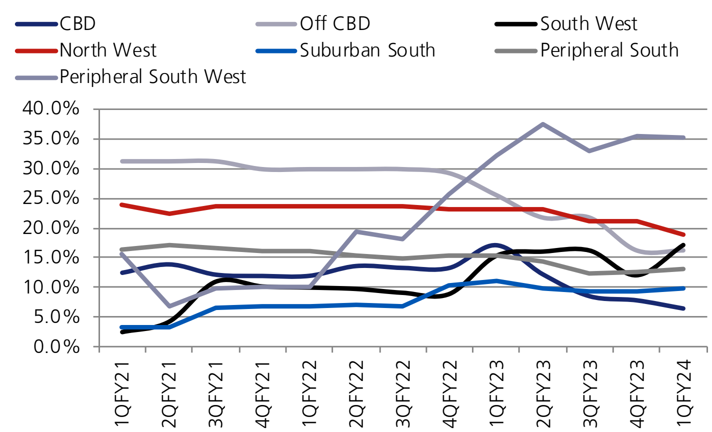
Key listed stocks: DLF and Brigade have exposure to the Chennai office market.

Exhibit 29. Micro-market-wise inventory



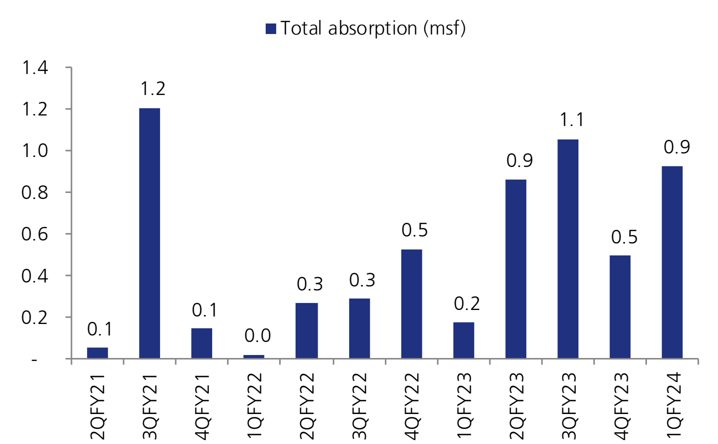
Source: Cushman and Wakefield, JM Financial

Exhibit 30. Vacancy trends across micro-markets



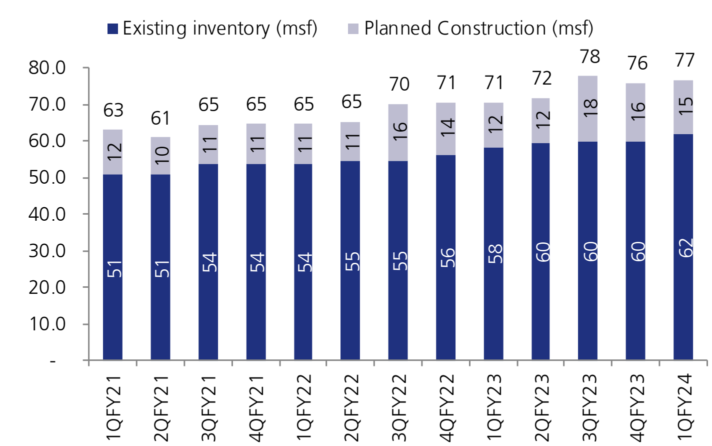
Source: Cushman and Wakefield, JM Financial

Exhibit 31. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

Exhibit 32. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Kolkata

Supply: No new completions happened in 1QFY24 owing to completion delay, while 1.9msf is expected to be added in CY23.

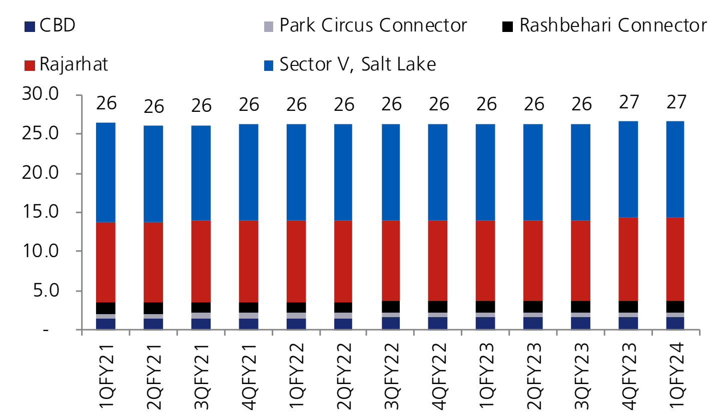
Leasing: In 1QFY24, demand for office spaces remained muted with gross leasing of 0.22msf (down 32% YoY, down 65% QoQ) and net absorption of 0.19msf (flat YoY, down 65% QoQ).

Vacancy: Overall vacancy declined to 28.6% in 1QFY24 (32.5% in 1QFY23, down 70bps QoQ) as supply remained at low levels.

Rent: Rents remained largely unchanged, despite a shortage of supply and improving demand.

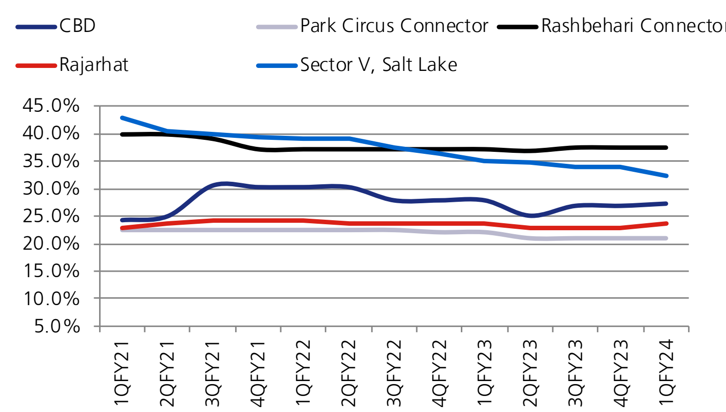
Key listed stocks: Brookfield REIT has a large exposure to the Kolkata office market.

Exhibit 33. Micro-market-wise inventory



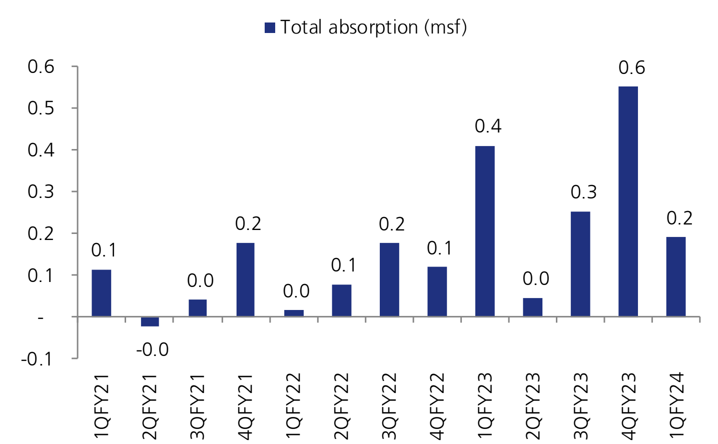
Source: Cushman and Wakefield, JM Financial

Exhibit 34. Vacancy trends across micro-markets



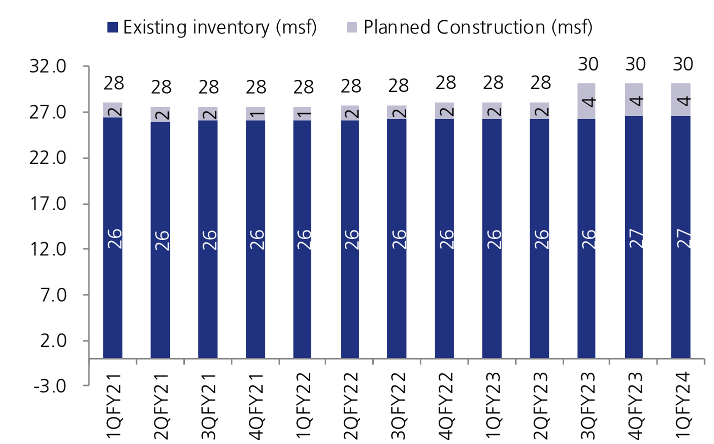
Source: Cushman and Wakefield, JM Financial

Exhibit 35. Total absorption in the city



Source: Cushman and Wakefield, JM Financial

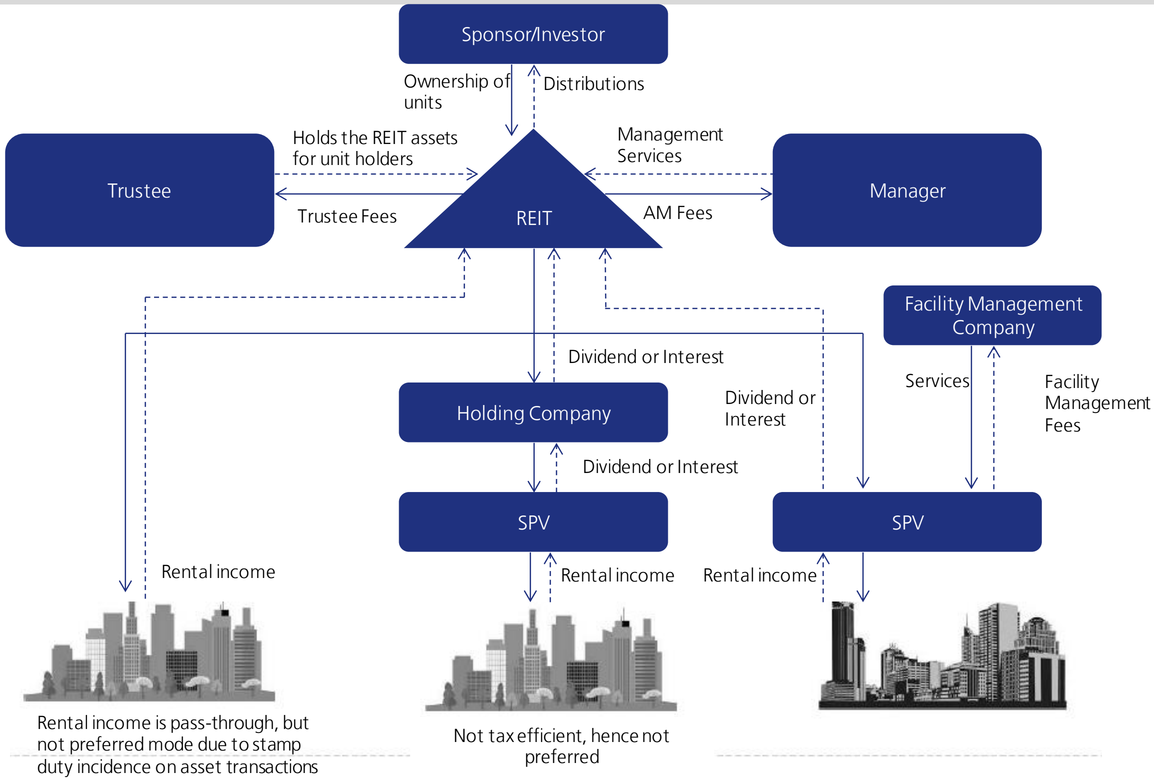
Exhibit 36. Planned supply + existing inventory trends



Source: Cushman and Wakefield, JM Financial

Appendix 2: REIT Regulations/Taxation in India

Exhibit 37. Structure of Indian REITs



Source: JM Financial

Exhibit 38. Roles and responsibilities of the different stakeholders

Stakeholder	Roles and responsibilities
Trustee	• Oversee that REIT Manager are acting in the best interest of the unit holders. • Ensure the Trust and Manager complies with the laws • Periodically review complaints and redressal undertaken by the Manager • Make distributions in accordance with the regulations • Convenes meetings of the unit holders in accordance with these regulations and oversee the voting by unit holders
REIT Manager	• Responsible make the investment decisions with respect to the underlying assets of the REIT • Management of the REIT assets including lease management, maintenance of the assets, regular structural audits, regular safety audits, etc. • If REIT invests in under-construction properties, manager may undertake the development of the properties, either directly or through the SPV, or appoint any other person for development of such properties. Shall also oversee development, approvals
Sponsor	• Set-up REIT and appoint trustee • Sponsor/Sponsor Group shall hold minimum 25% (Collectively) after initial offer on a post-issue basis for minimum 3 years from listing date • De-classification of sponsor is permitted after 3 years of listing subject to unit holding of sponsor/associates does not exceed 10%, Manager is not an entity controlled by the Sponsor and compliance with relevant laws
Valuer	• Valuation to form part of Offer Document • Full Valuation of assets as of 31st March and half yearly valuation incorporating key changes. • Report to be disclosed in Offer Document and to Stock Exchanges; NAV to be computed basis valuation report
Auditor	• Ensure to the best of their knowledge that financial statements give a true and fair view of the state of affairs • Conduct audit of accounts of the REIT and prepare audit reports as may be required by the Board of SEBI

Source: JM Financial

Exhibit 39. Regulatory Framework for Indian REITs

Sponsor Criteria

- Minimum collective net worth: Rs.100 Cr with each sponsor having a net worth of not less than Rs.20 Cr
- Sponsor/associate(s) has at least 5 years experience in development or fund management in the real estate industry
- At least 2 projects need to be completed in case the sponsor is a developer
- Minimum collective sponsor unit holding : 25% on a post-issue basis; for at least 3 years after which it can be reduced to o15%
- Minimum individual unit holding: 5% on a post-issue basis
- Post 3 years of IPO, minimum shareholding to be 15% collectively

Conditions on REIT

- REIT to hold at least 80% of its value in completed & rent and/or income yielding assets
- Minimum asset value of REIT shall be Rs. 500 Cr
- Minimum ultimate holding interest of 26% in the underlying SPVs
- At least 51% of the revenue of the REIT/Hold Co/SPV (excluding asset sale) should be from rent, lease and from incidental activity to leasing of such assets
- SPV to hold at least 80% of its assets in properties and engaged only in holding and developing property
- Upto 20% assets can be under construction, TDR, unutilised FSI, securities of real estate entities, Government securities, etc. However it cannot invest in another REIT
- Shall not invest in vacant or agricultural land, mortgages (excluding MBS)
- Shall not lend to any person other than SPVs in which the REIT has invested (subject to specified disclosures); investment in debt securities to not be considered as lending
- No unit holder shall have superior voting rights over another unit holder and subordinate units (carrying inferior voting rights / other rights) may only be issued to sponsors/ associates

REIT Manager

- Minimum net worth of Rs.10 Cr for body corporate/company; minimum net tangible assets of Rs. 10 Cr for LLP
- The manager /associate and at least 2 of its key personnel should have minimum 5 years experience in fund management/advisory services/property management in the real estate industry or in development of real estate
- At least 50% directors / governing board members to be independent and not holding similar positions in another REIT
- Has entered into an investment management agreement with the Trustee in line with the REIT regulations

Trustee

- Trustee is registered with SEBI and is independent of the Sponsor/ Manager
- Has the wherewithal with respect to infrastructure, personnel to the satisfaction of SEBI

Source: JM Financial

Exhibit 40. Taxation structure of REITs

Nature of Income	Taxability/Exemption	Withholding Tax rate (WHT)
For REITs		
Interest income from SPV	Exempt	NA
Dividend income	Exempt	NA
Return of capital or amortisation of SPV debt	Exempt	NA
Other income	Maximum marginal rate	NA
For investors		
Dividends received from SPVs distributed by REIT[(1)]	Exempt u/s 10(23FD)	NA
Interest received from SPVs distributed by REIT	Taxable u/s 115UA - Resident – Applicable rate - Non-Resident – 5% WHT[(2)]	- Resident – 10% (194LBA) - Non-Resident – 5% (194LBA) - Cat I & II AIF and MF - NIL
Amortization of SPV debt distributed by REIT	Not taxable as per section 115UA[(3)]	NA
Other income distributed by REIT	Exempt u/s 10(23FD) to be read with section 115UA	NA
Capital gains on sale of REIT units	Taxable u/s 111A / 112A - LTCG 10%, STCG 15% subject to taxability under applicable DTAA for non-residents[(4)]	NA

Source: JM Financial
Note:
(1) Dividend received from a SPV which has not opted for the concessional tax regime (25.17%) u/s 115BAA is exempt in hands of Unitholders. In case a SPV has opted for section 115BAA, dividend would be taxable in the hands of Unitholder and also subject to WHT @ 10%

(2) Income is taxable as per applicable tax rates under relevant DTAA & taxability under the Income Tax Act, 1961
(3) Taxability in the hands of investors to be assessed based on the advice from their respective tax advisors
(4) LTCG is applicable if units held by unitholders for more than 36 months. LTCG exempted upto INR 1 mn with no indexation benefit available
(5) All tax rates excluding applicable surcharge and cess

Exhibit 41. General Fee Structure of REITs

Sl. No	Name of the REIT	Base Fees	Acquisition Fees	REIT Management Fee	Property Management Fee	Divestment Fees
Domestic						
1	Embassy Office Parks	-	-	1.0% of REIT Dist.	3.0% of Facility Rentals	-
2	Mindspace Business Parks	-	-	0.5% of REIT Dist.	3.5% of Facility Rentals	-
3	Brookfield India RET	-	-	1.0% of REIT Dist.	3.0% of Facility Rentals	-
International						
4	Ascendas India Trust	0.5% of GAV	1% of Acq Price	4.0% of NOI	2.0% of Gross Rev.	0.5% of Sale Value
5	Maple Tree	0.25% of GAV	1% of Acq Price	4.0% of NOI	2.0% of Gross Rev. 2.0% of NOI	0.5% of Sale Value
6	Capitaland Commercial	0.1% of GAV	1% of Acq Price	5.25% of NOI	3.0% of NOI	0.5% of Sale Value
7	Suntec REIT	0.3% of GAV	1% of Acq Price	4.5% of NOI	3.0% of Gross Rev.	0.5% of Sale Value
8	Keppel REIT	0.5% of GAV	1% of Acq Price	3.0% of NOI	3.0% of NOI	0.5% of Sale Value

Source: Company, JM Financial

Appendix 3: The Development (Enterprise and Service) Hubs (DESH) Bill

History of SEZ regulations

- The Special Economic Zones (SEZs) Policy, which was introduced in April 2000 under the provisions of the Foreign Trade Policy, included several new elements while addressing the Export Processing Zones (EPZ) model's weaknesses.
- The SEZ Act of 2005 provided a more structured and formal environment for businesses by offering tax incentives, customs duty exemptions, streamlined procedures, and infrastructure support. The SEZ Act of 2005 came into effect in February 2006 with the formulation of the SEZs Rules, 2006. Some of the salient features of the SEZ scheme are:
  - Designated duty free enclave treated as a territory outside the customs territory of India for the purpose of authorised operations in the SEZ
  - Duty free import/domestic procurement of goods was allowed for development, operation and maintenance of SEZ units
  - SEZ units could borrow externally up to US $ 500 million in a year without any maturity restriction through recognized banking channels
  - SEZ units had full freedom for subcontracting
  - 100% Income Tax exemption on export income for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years
- However, a Unit has to achieve positive net foreign exchange (to be calculated cumulatively) for a period of five years from the commencement of production. This means that the unit had to export more than what it could import in terms of value of the goods/services.
- The introduction of the minimum alternate tax (MAT) and the sunset clause for tax benefits diminished the tax advantages for companies operating within SEZs. MAT was assessed at a rate of 18.5% on book profit, plus any relevant surcharges and cess.
- The NDA government announced a sunset date for SEZs in the 2016-17 Budget. The sunset provision now provided the income tax exemption to only those SEZ units that have started operating on or before March 31, 2020.

Introduction of the DESH Bill

- Apart from the introduction of the MAT and sunset provision, the SEZs also partially failed on one important aspect. The initial plan to strengthen the manufacturing industry was not achieved, and service exports saw an unusually large increase, with share of IT/ITES in SEZs were above ~55% in CY21 (Source: Impact and Policy Research Institute).
- After the US challenged India's export subsidy programme at the World Trade Organization (WTO), the commerce ministry established a committee under the leadership of Bharat Forge chairman Baba Kalyani to make its special economic zone (SEZ) policy compliant with WTO standards. The Development (Enterprise and Service) Hubs Bill is based on the recommendations of this committee.
- The government proposed the DESH Bill in 2022, which aims to establish and manage development hubs that are not only focused on exports but also on serving the home market, in contrast to the SEZ ecosystem.
- Under the DESH bill, all customs duty exemptions allowed in the SEZ acts will also be available. To comply with WTO regulations, the bill incorporates two significant adjustments: the elimination of the necessity for positive net foreign exchange, and giving access to local markets.
- Since the system of positive net foreign exchange has been eliminated, a unit's success will be assessed on the basis of net positive growth (NPG) under the proposed Bill, which will be determined by a number of factors, including economic activity and employment creation.

Key provisions of the DESH Bill

- The key provisions of the DESH bill are:

  - Creation of development hubs: Two types of developmental hubs - Enterprise and services hubs. While the enterprise hubs will have land-based area requirements and be allowed for both manufacturing and services activities, services hubs will have built-up area requirements and be allowed for only services-related activities. These hubs, which will come up under the regional boards of states, could be created by the Centre or states or jointly by both or by any goods and services provider

  - Online Approval Gateway: Online single-window portal for the award of time-bound permissions for the establishment and operation of the hubs

  - Increase Domestic Market exposure: In case of domestic sales, the customs duty would only be paid on the inputs and raw materials used and not on the expensive final goods. Furthermore, unlike SEZs, there is no required payment need in currency.

  - Removal of land contiguity norms: The bill will remove the requirement for land continuity and will allow partial de-notification of SEZ, so the developers can de-notify certain buildings/areas and lease them out as non-SEZ office spaces.

- The Bill also aims to incorporate current industrial parks like food and textile parks by rebranding them as development hubs. Moreover, the widening of the range of service sector units that can operate in development hubs is another important benefit of the draft DESH Bill. Earlier, only specific services, like IT and ITeS, were permitted in special economic zones (SEZs).

- The DESH bill may also allow infrastructure status to the units/developers on the lines of other sectors such as road and airports. This will help the companies operating in these hubs to have easier access to capital.

Current Status

- The DESH Bill has not been passed in Parliament yet, primarily due to disagreements and tussles between the Ministries of Finance (Revenue Department) and Commerce. These disputes revolved around the provisions of the bill, including tax breaks and exemptions.

- The two provisions under dispute were – (i) allowing units to sell in the domestic tariff area (within the nation but outside development hubs) in exchange for paying duties waived on imported raw materials, and (ii) offering all greenfield and some brownfield units in the development hubs that will be established under DESH a reduced corporate tax rate of 15% for an extended period.

Estimated impact of this bill on commercial real estate (office)

- IT/ITes-SEZ accounts for ~25% of the total ~550msf operational office space in India (top 8 cities). SEZ offices are witnessing rising vacancy levels (~13% in Q1CY22 versus 7.3% in 2019, largely due to expiry of the direct tax benefits under the sunset clause (Source: Cushman and Wakefield).

- During 2011-2019, share of SEZs in overall leasing was ~30%, which in 2020-21 has declined to 18-19%. Vacancy levels in the SEZ area comprise of ~60-75% of the total vacancy of the listed office REITs (Source: Cushman and Wakefield).

- Any positive development on the de-notification aspect through DESH bill or otherwise would ease the vacancy pressures on existing SEZs.

APPENDIX I

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