Dividend play on superior portfolio

Mindspace REIT (M-REIT), sponsored by the KRC Group, is a play on the stabilised rent-yielding office portfolio, spread across the Hyderabad, Mumbai Metropolitan Region (MMR), Pune and Chennai markets. Its completed portfolio of 23m sqft is ~88% occupied, with ~6.4m sqft of brownfield development likely to accrue over the next 5-7 years. The REIT is projecting a distribution yield of 7.5% for FY22ii, largely through the tax-efficient mode of dividends. Even as the ongoing COVID-19 poses risks to the near-term projections, we believe that over time, M-REIT would offer a steady double-digit total return structure, on a steady & growing dividend-income stream. *We recommend subscribing to the issue.*

Stable dividend-yielding portfolio, with diversified tenant base: The M-REIT portfolio has delivered an in-place rental Cagr of 6.7% over FY17-20, outpacing markets, and added ~6.6m sqft capacity. For FY20-23, M-REIT projects ~17% NOI Cagr, on the back of 4-5% contracted lease escalations, increasing occupancy from vacant lease up & ~2.8m sqft of new construction, and MTM potential. The portfolio and tenant base are diversified & well-positioned; 85% of the tenant base involves MNCs, and ~44% from technology and ~22% from financial services.

Favourable distribution mechanism: M-REIT is likely to announce distributions, largely in the form of dividends (up to 93% for FY22), which are fully tax-exempt across all classes of investors. It will utilise 90% of the Rs10bn fresh issue proceeds and the OFS proceeds from the KRC Group (Rs27bn) to reduce the external debt on SPVs, leading to post-listing debt-to-EV (valuer) of 15%. This provides enough room for either acquiring ROFO assets or market acquisitions, over time.

Covid-19, a key risk to projections and near-term growth outlook: M-REIT has highlighted that it has collected 95-99% of rentals for 1Q, in line with trends reported by peers, and that no renegotiations have been seen across the portfolio at large. But we believe that a persistent pandemic would be a key risk to rental growth and vacancies, especially for contracts that are nearing expiry. Over the longer term, we view M-REIT as offering a steady double-digit return structure.

Issue offer details

Units Outstanding (m)	593
Price Band (Rs)	274-275
Post-money Valuation (Rs bn)	162.5-163.1
Offer Size (Rs bn)	**45**
Fresh Issue (Rs bn)	*10*
Offer For Sale (Rs bn)	*35*
Strategic Investors (%)	25%
Institutional investors (%)	56%
Others (%)	19%
Anchor Issue	Friday - 24th July
Issue Open Date	Monday - 27th July
Issue Closes on	Wednesday - 29th July
Listing Date	Wednesday - 12th August
Post Money Shareholding	
KRC Group (Sponsor)	65%
Blackstone	10%
Other	25%

M-REIT projections by management

Y/e 31 Mar, Consolidated	FY20	FY21e	FY22e	FY23e
Revenues (Rs m)	17,660	17,141	21,080	24,023
% YoY		*-3%*	*23%*	*14%*
NOI (Rs m)	12,257	13,487	17,074	19,514
% YoY		*10%*	*27%*	*14%*
Ebitda (Rs m)*	13,718	13,733	15,512	17,643
% YoY		*0%*	*13%*	*14%*
Ebitda margins (%)	*77.7%*	*80.1%*	*73.6%*	*73.4%*
NDCF (Rs m)		**5,739**	**12,231**	**13,061**
DPU (Rs)		9.7	20.6	22.0
DPU Yield (%)		7.0%**	7.5%	8.0%

*incl Other Income, ** Annualised Yield, DPU is for 2HFY21

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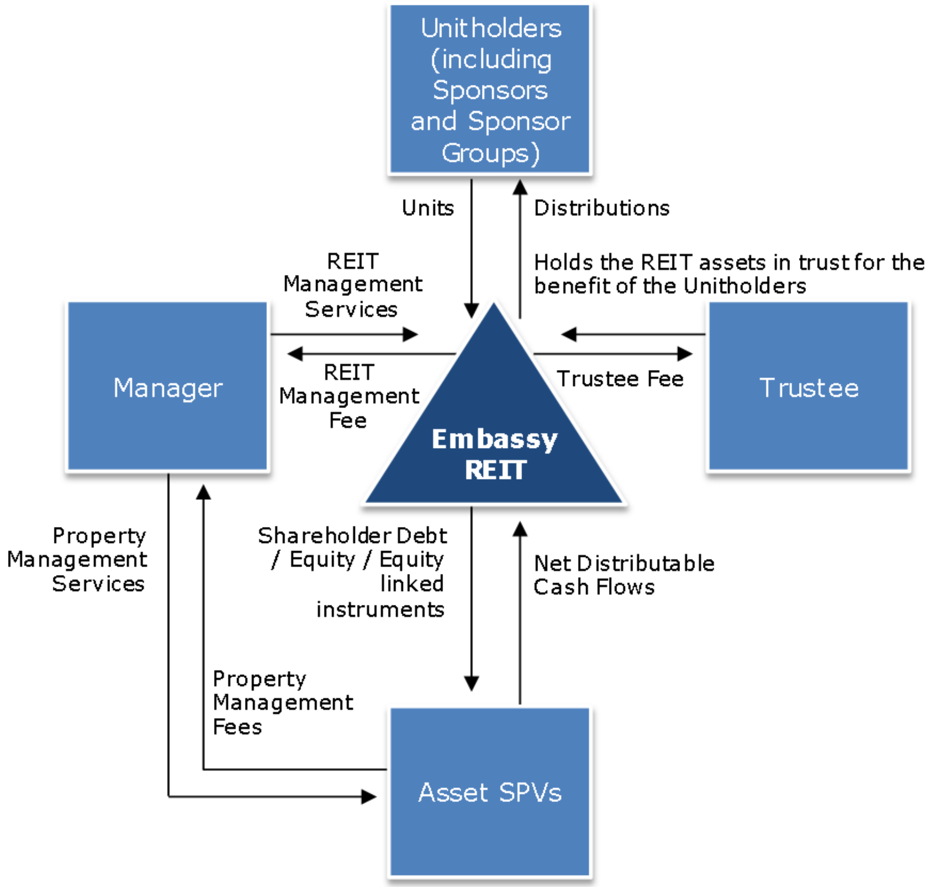
Stable dividend-yielding portfolio

Mindspace REIT (M-REIT), sponsored by the KRC Group, is a dividend play on the stable rent-yielding office portfolio, spread largely across the Hyderabad, MMR and Pune markets. Its completed portfolio of 23m sqft is ~87.7% occupied and ~6.4m sqft of brownfield development will accrue over the next 5-7 years. For FY20-23, M-REIT projects ~17% NOI Cagr, on the back of: contracted lease escalations, increasing occupancy from vacant lease up & new construction, and mark to market (MTM) potential. The portfolio and tenant base are diversified and well positioned; 85% of the tenant base involves multinationals, with ~44% from the technology sector and ~22% from financial services.

Sizeable and favourably-located portfolio: The M-REIT portfolio comprises 29.5m sqft of total leasable area, of which 23m sqft is completed and has a committed occupancy of 92% (87.7% actual occupancy). Further, 2.8m sqft of assets are under construction, to be completed by FY23, and 3.6m sqft will be developed in the future. The portfolio is located across MMR, Hyderabad, Pune and Chennai, which are among India's key office markets and accounted for ~60% of the demand in the top-six markets in the country during FY20. Some of M-REIT's business parks – Mindspace Madhapur and Mindspace Airoli East, entailing an area of 10.6m sqft and 6.8m sqft respectively – are among the largest in their respective markets. Albeit, we also point to M-REIT's absence in markets like Bangalore and NCR, especially with Bangalore being the strongest among all office markets in India.

The investment objective of Mindspace REIT is to own, operate and invest in rent-generating office real estate. The K Raheja Corp Group is the REIT sponsor, with Blackstone holding a 10% investor stake. The REIT is externally managed and, for that, K Raheja Corp Investment Managers LLP (owned by the sponsor group) has been appointed as 'the Manager'.

Figure 1: Snapshot of REIT structure – A pass-through for rental cash flows



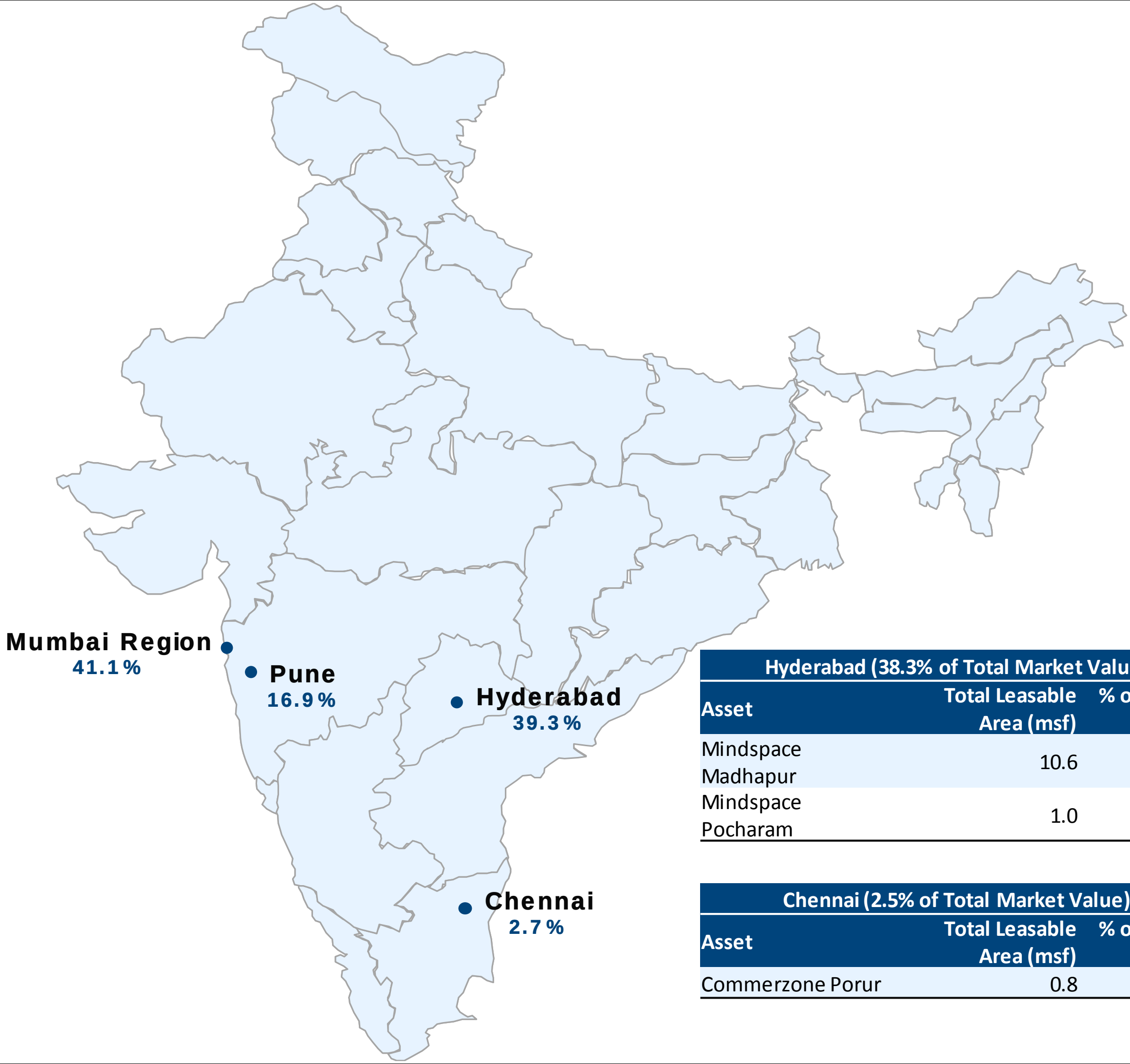
Source: IIFL Research

Figure 2: Snapshot of M-REIT's assets

Mumbai Region (38.9% of Total Market Value)		
Asset	Total Leasable Area (msf)	% of Market Value
Mindspace Airoli East	6.8	18.2%
Mindspace Airoli West	4.5	14.9%
Paradigm Mindspace Malad	0.7	4.0%
The Square, BKC	0.1	1.8%

Pune (18.0% of Total Market Value)		
Asset	Total Leasable Area (msf)	% of Market Value
Commerzone Yerwada	1.7	8.1%
The Square, Nagar Road	0.7	3.4%
Gera Commerzone Kharadi	2.6	6.5%

Others (2.3% of Total Market Value)	
Asset	% of Market Value
Facility Management Division	2.3%



Hyderabad (38.3% of Total Market Value)		
Asset	Total Leasable Area (msf)	% of Market Value
Mindspace Madhapur	10.6	37.0%
Mindspace Pocharam	1.0	1.3%

Chennai (2.5% of Total Market Value)		
Asset	Total Leasable Area (msf)	% of Market Value
Commerzone Porur	0.8	2.5%

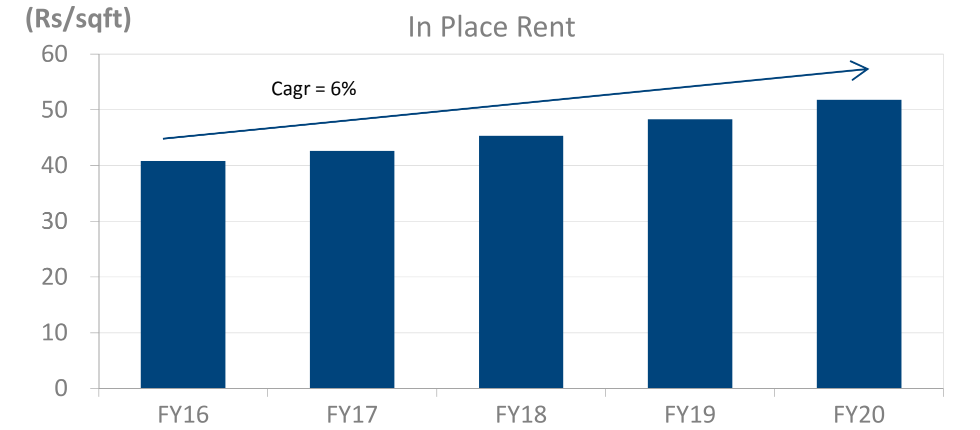
Source: Company, IIFL Research
Note: The market value of the facility management division, which will be housed in KRC Infra with effect from the first day of the quarter following the listing of units, is Rs5,532 million (i.e. 2.3% of the total market value); msf=million square feet/m sqft. **Market Value as per Valuer**.

Figure 3: Snapshot of the M-REIT portfolio

Portfolio	Type of asset	Total Leasable Area (msf)	Committed Occupancy	WALE (years)	Revenue FY2020 (Rs m)	Valuation - Valuer (Rs m)	% of total Market Value
Mumbai Region		**12.1**	**86.5%**	**5.7**	**6,600**	**92,022**	**38.90%**
Mindspace Airoli East	*Business Park*	*6.8*	*98.0%*	*4.8*	*3,569*	*43,107*	*18.20%*
Mindspace Airoli West	*Business Park*	*4.5*	*72.3%*	*8.1*	*2,269*	*35,205*	*14.90%*
Paradigm Mindspace Malad	*Independent Office*	*0.7*	*93.8%*	*3.3*	*762*	*9,409*	*4.00%*
The Square, BKC	*Independent Office*	*0.1*	-	-	-	*4,302*	*1.80%*
Hyderabad		**11.6**	**97.4%**	**5.5**	**6,237**	**90,570**	**38.30%**
Mindspace Madhapur	*Business Park*	*10.6*	*97.6%*	*5.6*	*6,107*	*87,585*	*37.00%*
Mindspace Pocharam	*Independent Office*	*1.0*	*92.4%*	*2.9*	*130*	*2,984*	*1.30%*
Pune		**5.0**	**90.0%**	**7**	**4,823**	**42,681**	**18.00%**
Commerzone Yerwada	*Business Park*	*1.7*	*99.9%*	*5.6*	*1,611*	*19,100*	*8.10%*
Gera Commerzone Khaadi	*Business Park*	*2.6*	*71.3%*	*10.9*	*2,296*	*15,486*	*6.50%*
The Square, Nagar Road	*Independent Office*	*0.7*	*100.0%*	*5.5*	*916*	*8,094*	*3.40%*
Chennai		**0.8**	**-**	**-**	**-**	**5,946**	**2.50%**
Commerzone Porur	*Independent Office*	*0.8*	-	-	-	*5,946*	*2.50%*
Facility Management Division						**5,532**	**2.30%**
Total		**29.5**	**92.0%**	**5.8**	**17,660**	**236,751**	**100.00%**

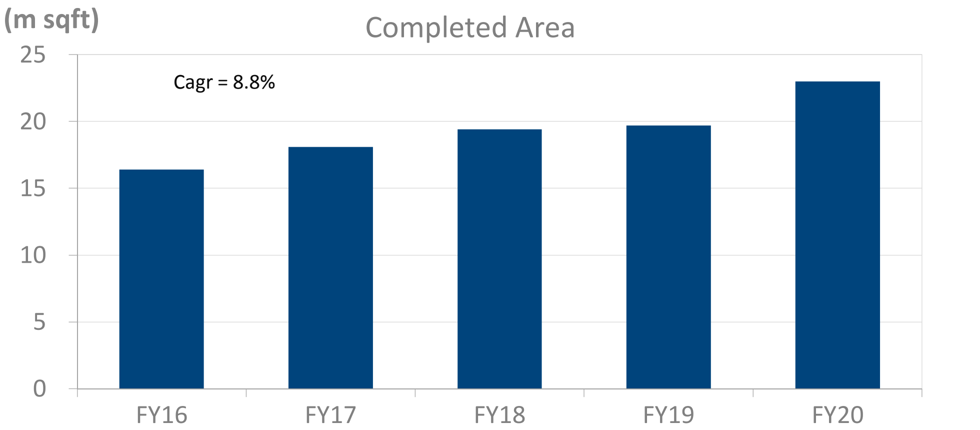
Source: Company, IIFL Research; Note: msf=million square feet/m sqft

Figure 4: In-place rentals have clocked a Cagr of 6% over FY16-20



Source: Company, IIFL Research

Figure 4: M-REIT has added ~6.6mnsqft of assets over FY17-20

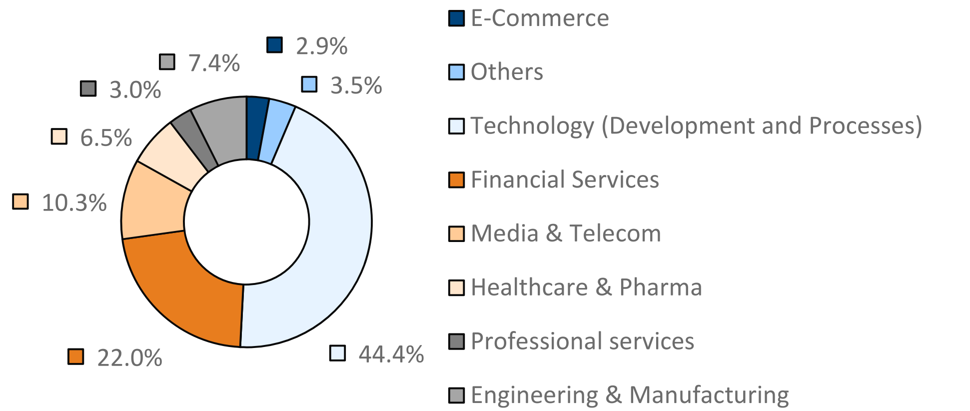


Source: Company, IIFL Research

Diversified tenant profile: M-REIT has 172 tenants, with a weighted average lease expiry (WALE) period of 5.8 years, and is well-diversified with no single tenant contributing more than 7.7% of rentals, thereby offering stability to the portfolio. Approximately 84.9% of rentals are attributable to MNCs and 39.4% to Fortune 500 companies. The tenant base comprises corporates, such as Accenture, Qualcomm, BA Continuum, JP Morgan, Amazon, Schlumberger, UBS, Capgemini, Facebook, Barclays and BNY Mellon. The sectoral mix of tenants is diversified, with increasing share of the non-technology sector; the technology share has fallen to 44.4% in Mar-2020 vs 54.6% as of Mar-2017. Tenants from several other sectors include financial services (22%), telecommunication & media (10.3%), engineering & manufacturing (7.4%), and healthcare & pharmaceuticals (6.5%), among others.

Figure 5: Diversified tenant mix

Split of Portfolio across sectors based on Gross Contracted Rentals, as of March 31, 2020



Source: Company, IIFL Research

Figure 6: The top-10 tenants account for >40% of the rentals

Top 10 Tenants	Sector	Occupied Area (msf)	% of Gross Contracted Rentals
Accenture	Technology	1.9	7.7
Qualcomm	Telecommunication and Media	1	5.3
Business and technology services company	Technology	1.2	5.1
Barclays	Financial Services	0.7	5
IT solutions and services company	Technology	0.9	4.5
BA Continuum	Financial Services	0.6	3
Schlumberger	Engineering and Manufacturing	0.3	2.9
JP Morgan	Financial Services	0.5	2.9
Amazon	E-Commerce	0.5	2.9
UBS	Financial Services	0.5	2.4
Total		**8.2**	**41.6**

Source: Company, IIFL Research; Note: msf=million square feet/m sqft

Growth drivers

M-REIT projecting 17% NOI Cagr over FY20-23: M-REIT is projecting NOI to grow by 59.2% over FY20-23, to be driven by contractual rent escalations, lease-up of vacant space, re-leasing at market rents (MTM potential of 22.6%) and new construction within the portfolio.

1) **Contractual escalations**: form the largest component of rental growth. Typically, an office space lease contract with a tenant has a long-term tenure of 5-10 years, with an initial commitment generally of 3-5 years and renewal options, post the initial commitment period. The majority of leases have built-in contractual rent escalations, of 12-15% every 3-5 years. In projections, M-REIT assumes annual normalised rental escalation of 4-5% across assets.

2) **Completion of 'on campus' expansion projects**: M-REIT, over the last five years, has constructed 7.5m sqft and, as of end FY20, the portfolio has a development pipeline of 6.5m sqft on land located within business parks. Of this, 2.8m sqft is under construction and, 0.2m sqft is pre-leased – Mindspace Airoli West and Mindspace Madhapur have leased 9% and 11% of the area respectively. Beyond FY23, we expect 3.8m sqft of assets be complete and ready for leasing.

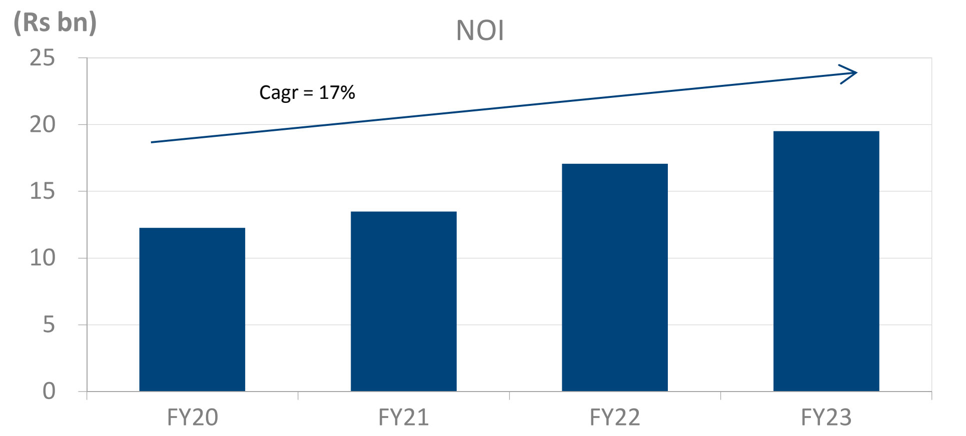
3) **Lease-up schedule of existing vacancy**: The M-REIT portfolio has 92% committed occupancy and 87.7% of actual occupancy. The vacancy of ~8% is concentrated in three assets: Mindspace Airoli West, Gera Commerzone Kharadi and Mindspace Madhapur. According to the offer document, the vacancy is primarily concentrated in large blocks of contiguous space on individual or multiple floors, which management believes could be attractive to larger tenants.

4) **Re-leasing of existing tenants at market rents**: According to the offer document, over the last 3 years, M-REIT has released 3m sqft at 28.9% higher than the in-place rents. Management believes the estimated market rent of the portfolio is Rs63.5/sqft, which is 22.6% above the average in-place rentals. With 24.6% of gross contracted rentals expiring over FY21-23, management believes there is a strong mark-to-market re-leasing opportunity.

5) **ROFO for future development**: The Sponsors have agreed to grant for a period of 10 years, a right of first offer (ROFO) of ~8.6m sqft of U/C assets to Mindspace REIT, in the event of sale of any ROFO assets by the KRC Group. The ROFO assets should meet the following criteria:

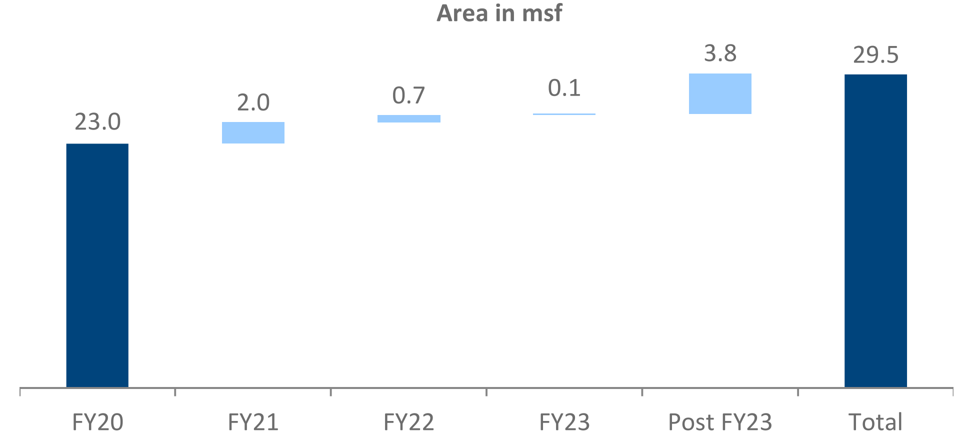
   1) Aggregate leasable area in excess of 1m sqft
   2) Not more than 30% of the area is proposed to be sold by way of a strata sale
   3) Equity holding of at least 50% by any member of the KRC Group
   4) Should be more than 50% complete

Figure 7: M-REIT projects NOI Cagr of ~17% over FY20-23ii



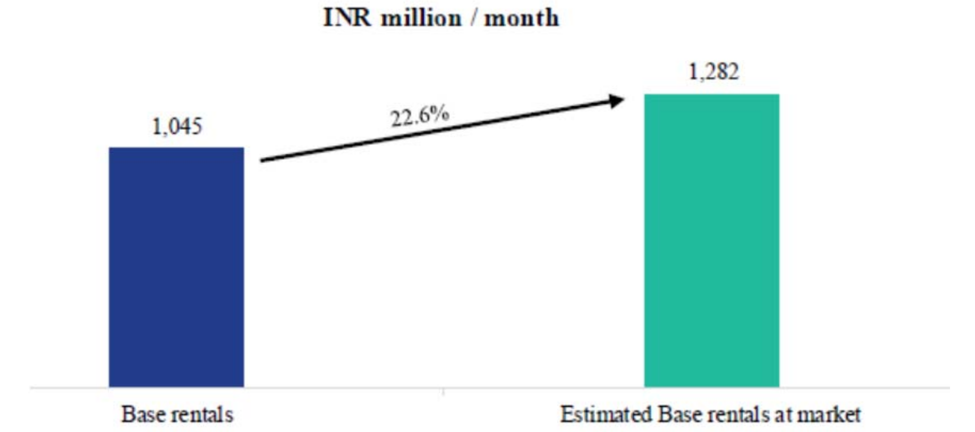
Source: Company, IIFL Research

Figure 8: On-Campus potential of ~6.5m sqft over the next 5-7 years



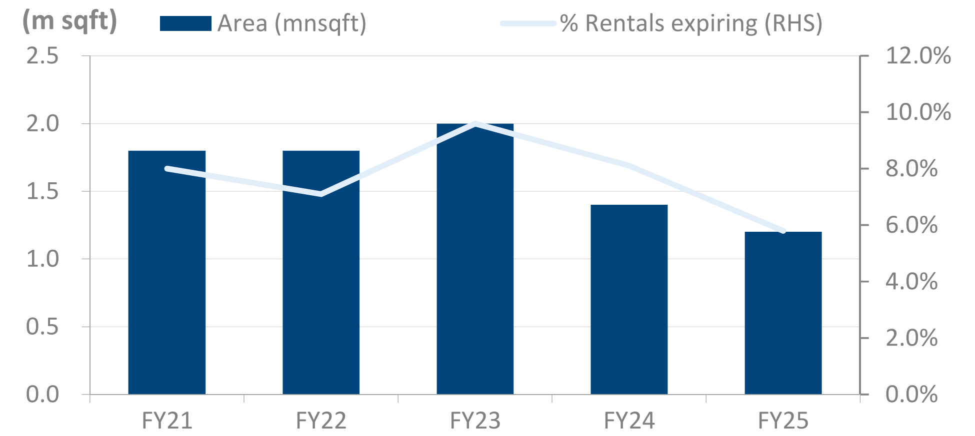
Source: Company, IIFL Research

Figure 9: Market rentals are 22.6% above the base in-place rentals



Source: Company, IIFL Research

Figure 10: Around 25% of the rentals are expiring over FY21-23ii



Source: Company, IIFL Research

Figure 11:M-REIT has a ROFO of 8.6m sqft

Asset	Location	Completed Area (m sqft)	U/C area (m sqft)	Future Dev (m sqft)	Leaseable Area (m sqft)
Mindspace Juinagar	Mumbai Region	0.8	0.2	4.0	5.0
Commerzone Pallikaranai	Chennai		0.7	1.1	1.8
Commerzone Madhapur		Hyderabad	1.8		1.8
Total		0.8	2.7	5.1	8.6

Source: Company, IIFL Research

Favourable distribution mechanism

M-REIT is expected to announce distributions largely in the form of dividends (up to 93% for FY22), which are wholly tax-exempt across all classes of investors. M-REIT will utilise 90% of the Rs10bn fresh issue proceeds; also, the OFS proceeds from the KRC Group (Rs27bn) will be used to reduce the external debt, leading to post listing debt-to-EV (valuer) of 15%. This provides enough room for either acquiring ROFO assets or market acquisitions, over time.

Utilisation of proceeds

The M-REIT issue is comprised of a fresh issue of Rs10bn and OFS of Rs35bn. The company has a total pre-IPO net debt of Rs71bn, spread across its SPVs, and Rs9bn of the Rs10bn net proceeds of the fresh issue will be invested in REIT SPVs as debt, bearing an interest of 9%. Further, the Rs27.5bn outstanding to certain asset SPVs from KRC Group entities shall be repaid from the proceeds of the Offer for Sale.

The total indebtedness, post listing, is expected to be Rs36bn, which is ~15% of the asset value, as derived by the valuer and which compares favourably with key similar office REITs in Asia as well as the 49% regulatory limit. This will allow the REIT to drive growth by undertaking value-accretive future acquisitions through both, new transactions and acquisition of ROFO assets from the KRC sponsor.

M- REIT is expected to incur a capex of Rs11.5bn during FY21-23, towards completion of under-construction office projects and hotels as well as modernisation & upgradation of facilities. The REIT will ensure that >90% (~100% for FY22) of the cash surplus is distributed and any shortfall will be met through past profits/external borrowings.

Figure 12: Post listing debt, as a % of EV, is ~15%

	Rs m
Debt of SPVs, as of Mar 2020	73,283
Less: Proceeds from Fresh Issue	9,000
Less: OFS money pooled back into M-REIT	27,537
Less: Others	606
Post Listing Debt	**36,140**
EV as per Valuer	236,751
Debt as a % of EV	*15%*

Source: Company, IIFL Research

Figure 13: Capex and completion timelines of M-REIT's assets

Asset	Area (m sqft)	Rs m	Completion Timeline
Mindspace Madhapur	0.13	221	4QFY21
Mindspace Airoli East	0.05	300	
Mindspace Airoli West	1.03	2,365	4QFY21
Gera Commerzone Kharadi	0.68	2,292	3QFY22
Commerzone, Porur	0.81	748	1QFY21
Pending Capex on Completed		1,956	
Upgrade Projects		3,442	
COVID Capex		180	
Total	**2.7**	**11,504**	

Source: Company, IIFL Research

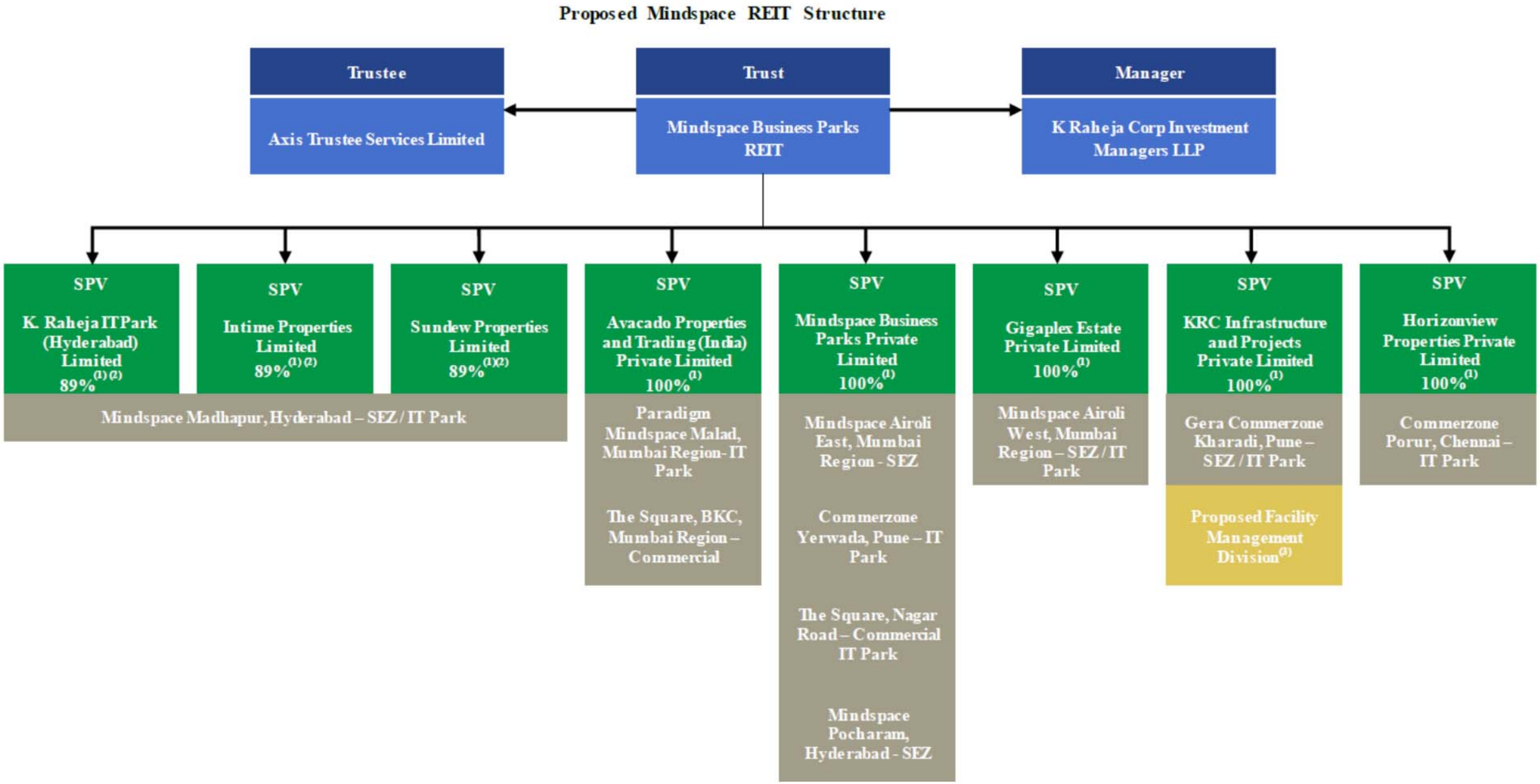
Tax implications: The REIT holds assets through SPVs; hence, cash flow is in the form of dividends, interest income and principal repayment. On dividends, as per the final notified Budget 2020, a REIT is fully tax-exempt across all investors, if the SPVs stick to the old tax regime (higher tax rate with allowance for MAT credit, if available). On interest, the tax liability on 'residents', as per the IT Act, is the maximum marginal rate and, for 'non-residents', it is 5% of the withholding tax. Mindspace REIT will distribute >90% of the cash flows through dividend, with the remaining being interest. Dividends or interest income from SPVs with controlling interest is exempt, in the hands of the REIT.

Figure 14: Interest taxation to vary across investors; dividend/others exempt

Investor Type	Interest	Dividend/SPV debt amortization	Comments
Foreign Investor	5.50%	Exempt	Tax on Interest is WHT - can be claimed under DTAA
Mutual Funds	0%	Exempt	No WHT
Other Domestic Institutions	25%-35%	Exempt	WHT of 10% on Interest
AIFs	25%-43%	Exempt	No WHT
Individuals/HUF	35%-43%	Exempt	WHT of 10% on Interest
LLPs and Firms	35%	Exempt	WHT of 10% on Interest

Source: Company, IIFL Research

Figure 15: M-REIT has a simpler-structure offering



Source: Company, IIFL Research

Covid-19: a key risk to projections, near term growth outlook

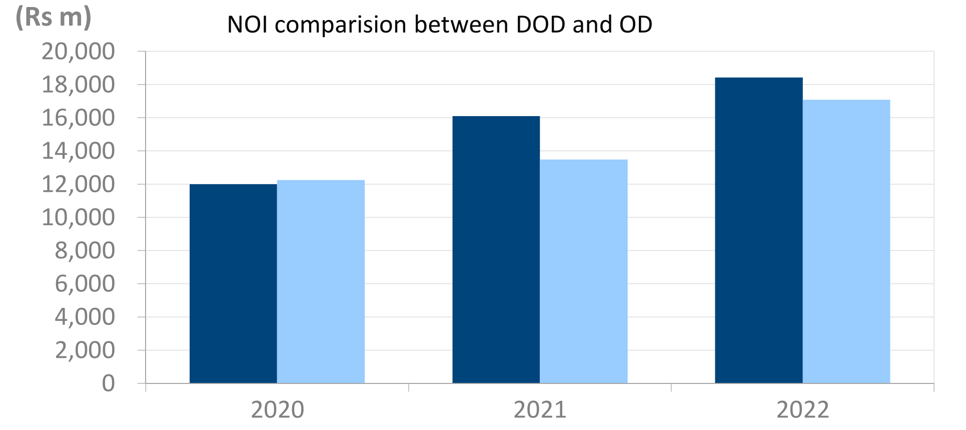
M-REIT has collected 95-99% of rentals in the first month of 1QFY21 itself, and has shared that no renegotiations have been seen across the portfolio at large. However, in our view, a prolonged continuation of the pandemic would be a key risk to rental growth and vacancies, especially for contracts that are nearing expiry. Over the longer term, we view M-REIT offering a steady double-digit return structure.

Covid-19 could materially impact business performance: Despite the Covid pandemic, M-REIT collected 99.4%/97.8%/95.2% of rentals for March/April/May respectively. New leasing, too, is seeing traction; M-REIT has leased 0.7m sqft (of which 40.5% was leased to existing tenants), since April. However, in case of the pandemic continuing for longer, tenants may be negatively affected by the disruption to business caused by this global outbreak and the impact in the medium-to-long term will depend on the scope, severity and duration of the pandemic.

Figure 16: Covid impact: short term vs longer term

Short Term Disruption	Long Term to Medium Term Recovery
Large consolidations will get deferred due to restricted capex allocation	Preference to operate from secured office environments because of concerns of data security in work from home
Uncertainty of demand for larger space to continue for upcoming three to six quarters	India could be a beneficiary of some of the global business relocation due to cost advantages - Low rentals and availability of large talent pool; this shall attract GCCs
Higher focus on health and safety measures	Densification of occupancy to reduce due to safe distancing norms may lead to incremental demand in medium term
Construction delays to affect future market supply; Limited access to capital to moderate speculative supply	Shift to Grade-A assets with campus styled development high on COVID-19 and other health and safety protocols
Possible rent correction in rentals at assets quoting at a premium to market	

Figure 17: M-REIT projections have been adjusted down for COVID-19



Source: Company, IIFL Research

Figure 18: Projections by the company management

Y/e 31 Mar, Consolidated	FY20	FY21	FY22	FY23
Revenues (Rs m)	17,660	17,141	21,080	24,023
% YoY		*-3%*	*23%*	*14%*
NOI (Rs m)	12,257	13,487	17,074	19,514
% YoY		*10%*	*27%*	*14%*
Ebitda* (Rs m)	13,718	13,733	15,512	17,643
% YoY		*0%*	*13%*	*14%*
Ebitda margins (%)	*77.7%*	*80.1%*	*73.6%*	*73.4%*
NDCF (Rs m)		**5,739**	**12,231**	**13,061**
DPU (Rs)		9.7	20.6	22.0
DPU Yield (%)		7.0%**	7.5%	8.0%

Source: Company, IIFL Research. *incl Other Income, ** Annualised Yield, DPU is for 2HFY21

Figure 19: Asset overview of Embassy and Mindspace REITs

	Embassy REIT	Mindspace REIT	Comments
Asset Overview			
Operating (mnsqft)	26.2	23.0	
Committed occupancy (%)	*92.8%*	*92.0%*	Embassy - Definitive agreements, Mindspace - LOI included
Under Construction (mn sqft)	2.6	2.8	
Future Development (mn sqft)	4.5	3.6	
Total (mn sqft)	**33.3**	**29.4**	
ROFO (mn sqft)	43.2	8.6	From the sponsors - Embassy Group and KRC Group respectively
EV (as per Valuer) (Rs bn)	**332**	**237**	
Completed	**300**	**217**	
as a %	*90.4%*	*91.5%*	Regulations mandate min 80% complete
Under Construction	**32**	**20**	
Market Presence - % of EV			
Bangalore	55%		Manyata is the largest asset
Hyderabad		38%	Madhapur largely, Pocharam
Mumbai	15%	39%	Embassy - Nariman pt, BKC, Vikhroli; M-REIT - Airoli, Malad, BKC
Pune	13%	18%	Embassy - West Punei; M-REIT - East Pune
NCR	9%		Noida, Greater Noida
Chennai		3%	Porur
Others	8%	2%	Others Incl Hotels/Solar /Facility mgmt.
Tenants Quality			
MNC Share	78.0%	84.9%	MNC tenants usually sticky
Top 10 Tenants	42.0%	41.6%	
Tech Sector	50.0%	44.4%	
Financial Services	12.0%	22.0%	
Healthcare	6.0%	6.5%	
Others	32.0%	27.1%	

Source: Company, IIFL Research

Figure 20: Shareholding and valuation for Embassy and Mindspace REITs

	Embassy REIT	Mindspace REIT	Comments
Largest Tenants			
IBM	12.0%		
Cognizant	8.9%		
Accenture		7.7%	Single largest tenant exposure lower for M-REIT
Qualcomm		5.3%	
Shareholding post listing			
Blackstone	47%	10%	Blackstone may reduce holdings over time
Permanent Sponsor	15%	65%	
Others	38%	20%	
FY22 Estimates			
Revenue (Rs bn)	26.2	21.1	M-REIT projections from Offer Document/Embassy are IIFLii
Ebitda (Rs bn)	21.0	15.5	
% margin	*80.1%*	*73.6%*	
NDCF (Distribution) (Rs bn)	**19.8**	**12.2**	
Dividend	*18%*	*93%*	M-REIT will announce >90% of distribution as Dividend (tax free for all investors)
Interest	*46%*	*7%*	Over time, Embassy Dividend payout to increase
Amortization of SPV Debt	*36%*		
Valuations			
M-Cap/Post Money Equity Value	**268.6**	**162.8**	Based on price band for M-REIT
FY21 Net debt	47.3	36.1	Post listing debt for M-REIT
EV	315.8	198.9	
EV/Ebitda (x)	15.0	12.8	
FY22 Yield - Headline %	***7.4%***	***7.5%***	
FY22 Yield (Post Tax) %	***6.2%***	***7.3%***	***Tax on Interest assumed at 35%***
FY22 Yield (Adjusted) %	***6.1%***	***6.0%***	***Adjusted for ZCB Interest, impact of past profits etc***
FY22 Yield (Post Tax) %	***5.1%***	***5.9%***	

Source: Company, IIFL Research

Figure 21: REITs – global comparables

Company Name	Country Code	Last Px	M Cap (US$ bn)	Total debt (US$ bn)	Leverage (%)	Avg Daily Trading (US$ m)	Distribution Cagr - 2 yr (%)	Distribution Yield FY21 (%)	P/NAV (x)
Embassy REIT	IN	360.1	3.7	0.9	20%	7.5	9.3%	7.5%	1.0
Ascendas India REIT	SG	3.3	8.7	3.9	31%	29.0	4.0%	4.9%	1.5
Capitaland Commercial	SG	1.8	4.9	2.1	30%	19.0	6.8%	4.9%	1.0
Keppel REIT	SG	1.1	2.7	1.6	37%	6.3	0.0%	5.3%	0.8
Manulife US	SG	0.7	1.1	0.8	42%	1.9	1.7%	8.5%	0.9
Suntec	SG	1.4	2.9	2.7	48%	16.0	9.7%	6.0%	0.7
Mapletree Commercial	SG	1.9	4.6	2.1	31%	17.3	8.2%	4.9%	1.1
The Link REIT	HK	59.6	15.8	4.5	22%	70.5	3.4%	5.2%	0.8
Champion REIT	HK	4.0	3.0	1.9	38%	2.4	0.0%	6.3%	0.4
Fortune REIT	HK	6.8	1.7	1.1	39%	4.6	1.4%	7.5%	0.4
Boston Properties	US	91.5	14.2	12.2	46%	155.8	3.5%	4.5%	2.5
Vornado Realty Trust	US	35.5	6.8	7.9	54%	104.2	-6.4%	7.2%	1.3
Kilroy Realty	US	57.0	6.6	3.7	36%	60.9	3.6%	3.6%	1.3
Douglas Emmett	US	29.0	5.1	4.6	48%	41.1	4.7%	4.0%	1.1
SL Green Realty	US	47.9	3.7	5.9	61%	95.1	2.6%	7.5%	0.8
Average/Total			**85.6**	**55.9**	**39%**	**42.1**	**3.5%**	**5.9%**	**1.0**

Source: Company, IIFL Research

Snapshot of REIT regulations
Under REIT Regulations of the SEBI, Mindspace REIT, on a half yearly basis, is required to ensure the following:

- At least 80% of the value of assets to be completed in rent-generating properties;
- Not more than 20% value of assets can be invested in: 1) U/C properties, 2) completed, but not rent-generating properties, and 3) listed or unlisted debt of real estate sector companies, which derive at least 75% of their operating income from realty;
- At least 51% of the revenues (ex-asset sale) of the REIT and SPVs must arise from rental income;
- The properties are required to be held for at least three years, from the date of completion or purchase.
- There are restrictions on certain investments: 1) vacant land, 2) agricultural land or mortgages, other than mortgage-backed securities, and 3) assets located outside India.

Distribution of Cash Flows: The Manager shall declare and distribute at least 90% of the net distributable cash flows as distributions, on a quarterly basis as a minimum. Distributions shall be within 15 days from the date of such declarations. 100% of the cash flows received by the Holdco from the underlying SPVs are required to be distributed to the REIT, and not less than 90% of the net distributable cash flows generated by the Holdco on its own shall be distributed to the REIT. The net distributable cash flow receivables by the Mindspace REIT may be in the form of dividends, interest income, principal repayment or capital reduction or buyback.

Expenses at the REIT and SPV levels: Expenses to be directly charged to the Mindspace REIT would include: 1) REIT management fee (0.5% of REIT distributions) and 2) property management fee paid by asset SPVs to the Manager, at 3.5% of total rent. Further fees include Trustee fee (initial acceptance fee as well as annual fee), Trademark licencing fee (monthly: Rs0.1m), Auditor fee and Valuer fee.

Figure 22: Indian REITs have a favourable expense structure

The management fees structure of the key Asian office REITs is illustrated below:

	Ascendas India Trust(1) (2)	Maple Tree(1)	CapitaLand Commercial(1)	Suntec REIT(1)	Keppel REIT(1)	Emb assy REIT (3)	Mindspa ce REIT(5)
Base Fees	0.5% of Gross Asset Value	0.25% of Gross Asset Value	0.1% of Gross Asset Value	0.3% of Gross Asset Value	0.5% of Gross Asset Value	NA	Nil
REIT Managem ent Fees	4% of Net Property Income	4% of Net Property Income	5.25% of Net Property Income	4.5% of Net Property Income	3% of Net Property Income	1% of Distributi ons	0.5% of NDCF
Property Managem ent Fees	2% of Gross Revenue	2% of Gross Revenue 2% of Net Property Income(4)	3% of Net Property Income	3% of Gross Revenue	3% of Net Property Income	3% of Rental Revenue	3.5% of Total Rent
Acquisition Fees	1% of Acquisition Price	1% of Acquisition Price	1% of Acquisition Price	1% of Acquisition Price	1% of Acquisition Price	NA	Nil
Divestmen t Fees	0.5% of Sale Value	0.5% of Sale Value	0.5% of Sale Value	0.5% of Sale Value	0.5% of Sale Value	NA	Nil

Source: Company, IIFL Research

Board of Directors of the Manager

Sponsor group: The Mindspace REIT is sponsored by the KRC Group (K Raheja Corp., a prominent real-estate development and retail business group, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, malls and residential segments). The KRC Group has acquired and/or developed properties across various businesses, entailing approximately 28.5 million square feet of commercial real estate, as of March 31, 2020. These entities include Chalet Hotels, Inorbit Malls, Shoppers Stop outlets and KRCPL.

REIT Manager and the Board: K Raheja Corp Investment Managers LLP has been appointed as the Manager of Mindspace REIT, with Ravi C Raheja and Neel C Raheja as the partners of the Manager. The Manager is required to 1) manage the assets and investments of Mindspace REIT, 2) render investment management services; 3) undertake operational and administrative activities of Mindspace REIT; and 4) cause the issuance and listing of the units on Stock Exchanges. The Board is comprised of 6 directors, of who half are independent. The non-independent directors comprise 3 board seats – 2 for the KRC Group and 1 for Blackstone. There is one woman independent director on the Board.

Figure 23: The Board comprises 3 independent directors: 2 from KRC and 1 from Blackstone

Director	Designation	Profile
Ravi Raheja	Non - Independent Member	Group President of the sponsor KRC Group. Has over 23 years work experience across real estate, retail and the hospitality industry.
Neel Raheja	Non - Independent Member	Group President of the sponsor, KRC Group. Has over 21 years of work experience across real estate, retail and the hospitality industry. Has played a key role in the organisation's presence in retail brands, namely Shoppers Stop, Inorbit Mall and Crossword
Alan Miyasaki	Non - Independent Member	He is the senior managing director and head of real estate Asia acquisitions, in Blackstone, Singapore, and has played a key role in building Blackstone's real estate business in Asia including executing investments in Greater China, India, Singapore, Japan and Australia.
Deepak Ghaisas	Independent Member	He is on the board of Gencoval Strategic Services Pvt and also the chairman of Stemade Biotech Pvt. He currently serves as a member on the board of governors of IIT Kanpur and the chairperson on the board of governors of IIITD, Jabalpur.
Manisha Girotra	Independent Member	She is the CEO of Moelis & Company in India. Was previously associated with UBS Securities India, and is currently a director on the boards of Ashok Leyland, Jio Payments Bank Limited and Naspers.
Bobby Parikh	Independent Member	Several years of experience in advising clients on business model identification, mergers and acquisitions, and business re-organisation.

Source: Company, IIFL Research

Figure 24: The manager's team is highly experienced in the leasing space

Name	Position	Description
Vinod Rohira	CEO	Began his career at KRC and instrumental in the growth of the commercial portfolio
Preeti Chheda	CFO	CA, CS and CFA; associated with the KRC Group for 12 years and previously worked with Marico, Shell Gas (LPG) India and Cairn Energy India
Deepak Aswani	GM Finance and IR	Overall 14 years of experience across corporate finance, investment banking and capital markets

Source: Company, IIFL Research

Figure 25: Framework for making key decisions

Strategic decisions	Key requirements	Unit holder approval requirements
Acquisition (non-Related Party Transaction)	Independent valuation required	If purchase price over 110% of independent valuation
		If value equal to or greater than 25% of the REIT assets
Acquisition (Related Party Transaction)	Two independent valuation reports	If the total value of all the RPTs is over 10% of the value of the REIT
	Purchase price cannot be higher than 110% of the average of the two independent valuations	
Divestment (non-Related Party Transaction)	Independent valuation required	If sale price less than 90% of the independent valuation
		If the value is more than 10% of the REIT assets
Divestment (Related Party Transaction)	Two independent valuation reports	If total value of all the RPTs is more than 10% of the value of the REIT
	Sale price cannot be lower than 90% of the average of the two independent valuations	

Strategic decisions	Key requirements	Unit holder approval requirements
Debt raise	Borrowings not allowed to exceed 49% of the value of REIT assets	Aggregate consol net debt exceeds 25% of the value of REIT assets
		If value of funds borrowed from RPs in a year is more than 10% of total consol borrowings
Leasing (Related Party Transaction)	Fairness opinion from independent valuer required, if RP leases (by area, value or rentals) exceed 20% of REIT assets	If related party leases (by area, value, or rentals) more than 20% of the total REIT assets
Development	If 80/20 conditions w.r.t U/C assets are breached on sale/expiry, 6 months rectification period	An additional 6-month extension requires unit holders' approval

Source: Company, IIFL Research

Annexures

A pictorial presentation of M-REIT's assets across India

Mindspace Madhapur - Hyderabad

Mindspace Madhapur is located in the largest office micro-market in Hyderabad, with excellent infrastructure and direct connectivity to the airport. It is the **largest business park in Hyderabad**, offering an integrated business ecosystem, with quality tenants that include Qualcomm, BA Continuum, Verizon, Amazon, Pegasystems and JP Morgan.

Figure 26: Key statistics – Mindspace Madhapur

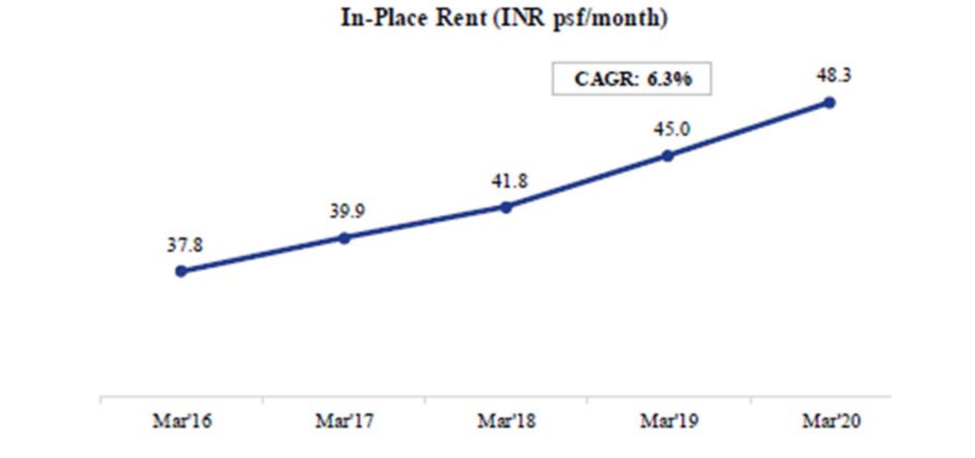
M-REIT Stake (%)	89%
Year of commencement	2005
Site area (acre)	97.2
Leasable area (m sqft)	10.6
Completed area (m sqft)	9.9
Occupancy (%)	89.2%
Completed Buildings	21
Number of tenants	88

Source: Offer Document

Figure 27: Location Map – Mindspace Madhapur

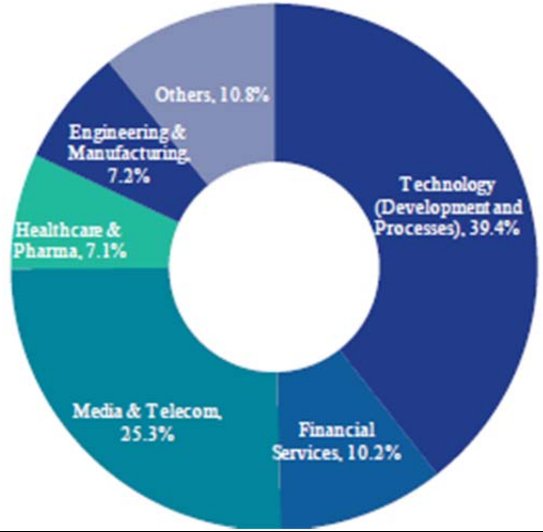
Source: Offer Document

Figure 28: Rental Cagr of 6.3% over the last 4 years



Source: Offer Document

Figure 29: Sector mix by contracted rentals



Source: Offer Document

Mindspace Airoli East – MMR

Mindspace Airoli East is located on the Thane-Belapur Road in Navi Mumbai, near Airoli Railway Station. It is built on leasehold land, and is one of the two largest business parks (the other being the company's Mindspace Airoli West asset) in Mumbai region (MMR). It has 29 tenants, including Accenture, Syntel, Wipro, EClerx, Inventurus and Gebbs; its top ten tenants account for 87.3% of its rentals.

Figure 30: Key Statistics – Mindspace Airoli East

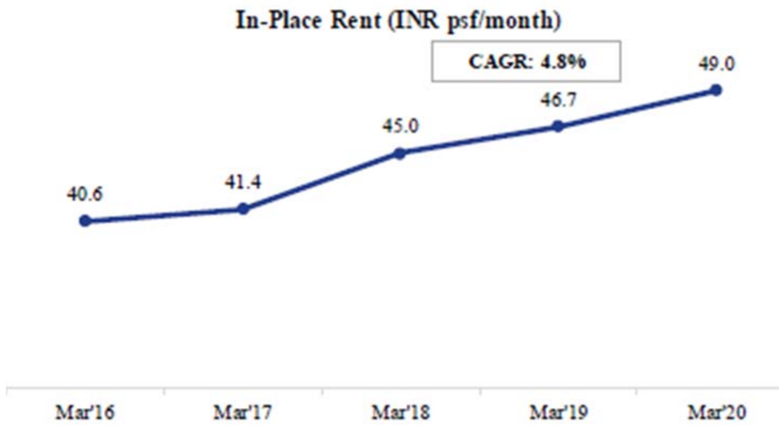
Year of commencement	2007
Site area (acre)	50.1
Leasable area (m sqft)	6.8
Completed area (m sqft)	4.7
Occupancy (%)	98%
Completed Buildings	12
Number of tenants	29

Source: Offer Document

Figure 31: Location Map – Mindspace Airoli East

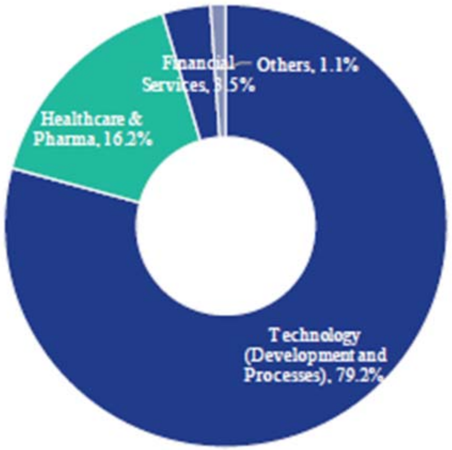
Source: Offer Document

Figure 32: In-place rental Cagr at 4.8% over FY16-20



Source: Offer Document

Figure 33: Sector mix by contracted rentals



Source: Offer Document

Mindspace Airoli West – MMR

Mindspace Airoli East is located on the Thane-Belapur Road in Navi Mumbai, near Airoli Railway Station. It is built on leasehold land, and is one of the largest business parks in Mumbai region (the other being the company's Mindspace Airoli East asset). It has 28 tenants, including Accenture, Capgemini, Axis, Here Sol, GeP, UBS, Atos India and IDFC; its top ten tenants accounted for 95.2% of its rentals.

Figure 34: Key Statistics – Mindspace 247

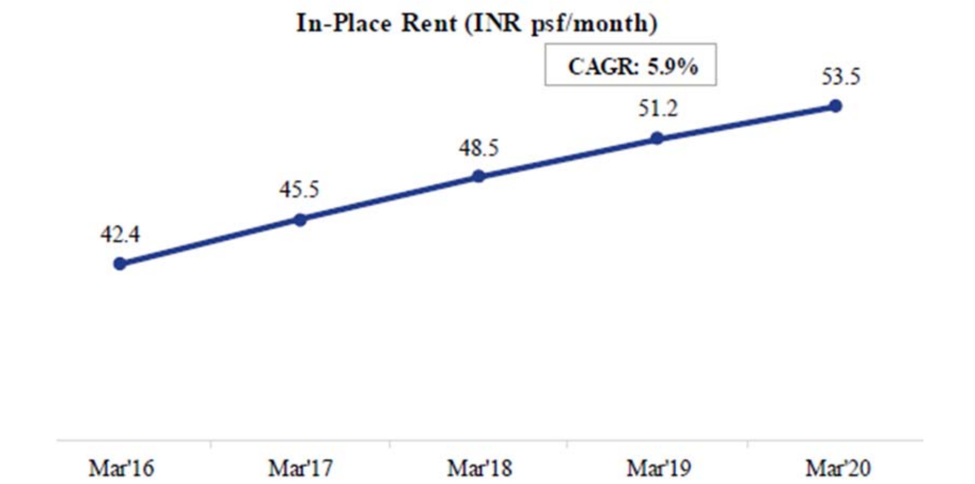
Year of commencement	2013
Site area (acre)	50.0
Leasable area (m sqft)	4.5
Completed area (m sqft)	3.5
Occupancy (%)	68.8%
Completed Buildings	6
Number of tenants	28

Source: Offer Document

Figure 35: Location Map – Mindspace 247

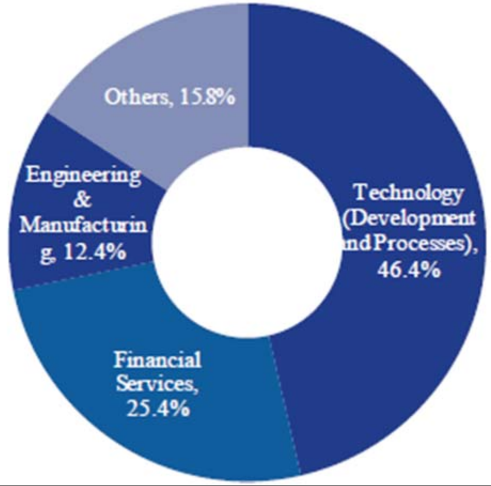
Source: Offer Document

Figure 36: In-place rental Cagr of 5.9% over FY16-20



Source: Offer Document

Figure 37: Sector mix by contracted rentals



Source: Offer Document

Commerzone - Yerwada

Commerzone Yerwada is located within the Secondary Business District East micro-market of Pune, in proximity to the railway station as well as Pune International Airport. The asset is currently 99.9% occupied by technology, engineering & manufacturing and financial services-linked tenants, such as Schlumberger, UBS and BNY Mellon.

Figure 38: Key Statistics Commerzone Yerwada

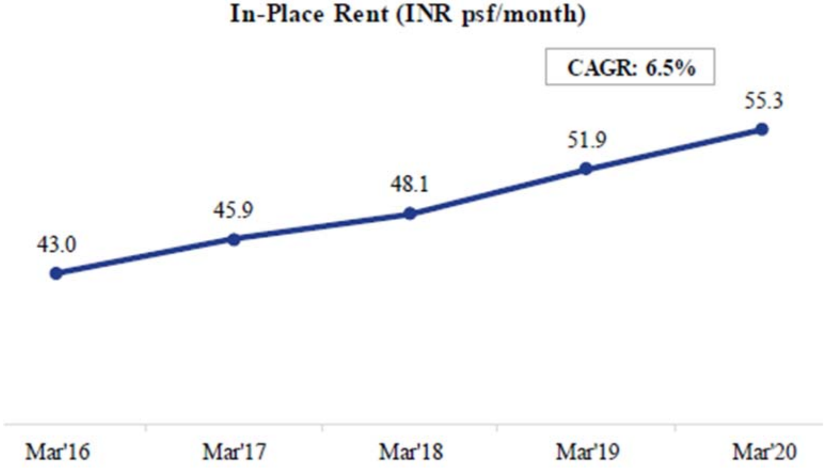
Year of commencement	2010
Site area (acre)	25.7
Leasable area (m sqft)	1.7
Completed area (m sqft)	1.7
Occupancy	99.9%
Completed Buildings	7
Number of tenants	21

Source: Offer Document

Figure 39: Location Map – Commerzone Yerwada

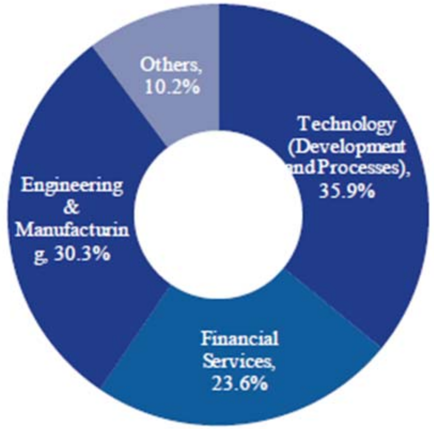
Source: Offer Document

Figure 40: In-place rental Cagr of 6.5% over FY16-20



Source: Offer Document

Figure 41: Sector mix by contracted rentals



Source: Offer Document

Commerzone Gera Kharadi

Gera Commerzone Kharadi is a Grade-A asset located in Pune, Maharashtra. The asset is strategically within the Secondary Business District East micro-market of Pune, in proximity to the railway station, Pune International Airport and the upcoming metro station. As on March 31, 2020, Commerzone Kharadi had three tenants, Barclays, All State and a logistics company.

Figure 42: Key Statistics – Commerzone Gera Kharadi

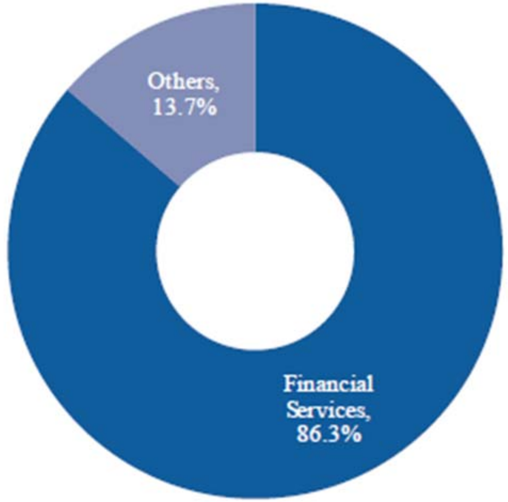
Year of commencement	2017
Site area (acre)	25.8
Leasable area (m sqft)	2.6
Completed area (m sqft)	1.3
Occupancy	71.3%
Completed Buildings	2
Number of tenants	3

Source: Offer Document

Figure 43: Location Map – Commerzone Gera Kharadi

Source: Offer Document

Figure 44: Sector mix by contracted rentals



Source: Offer Document

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY18	FY19	FY20
Revenues	**12,631**	**14,316**	**17,660**
Ebitda	7,858	10,133	11,116
Depreciation and amortisation	-2,054	-2,196	-1,146
Ebit	5,804	7,937	9,970
Non-operating income	2,391	2,481	2,602
Financial expense	-4,688	-4,462	-5,114
PBT	3,507	5,956	7,458
Exceptionals	11	117	60
Reported PBT	3,518	6,073	7,518
Tax expense	-1,908	-919	-2,379
PAT	1,610	5,154	5,139
Minorities, Associates, etc	127	365	392
Attributable PAT	**1,483**	**4,789**	**4,747**

Ratio analysis

Y/e 31 Mar, Consolidated	FY18	FY19	FY20
Per share data (Rs)			
Pre-exceptional EPS	NA	NA	NA
DPS	NA	NA	NA
BVPS	NA	NA	NA
Growth ratios (%)			
Revenues	NA	13.3%	23.4%
Ebitda	NA	29.0%	9.7%
EPS	NA	222.9%	-0.9%
Profitability ratios (%)			
Ebitda margin	62.2%	70.8%	62.9%
Ebit margin	46.0%	55.4%	56.5%
Tax rate	54.2%	15.1%	31.6%
Net profit margin	11.7%	33.5%	26.9%
Return ratios (%)			
RoE	11.8%	32.2%	24.7%
RoCE	8.1%	10.8%	11.6%
Solvency ratios (x)			
Net debt-to-equity	4.6	3.2	3.4
Net debt-to-Ebitda	7.4	5.5	6.4
Interest coverage	1.2	1.8	1.9

Source: Company, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY18	FY19	FY20
Cash & cash equivalents	446	630	2,561
Inventories	21	33	52
Receivables	368	301	362
Other current assets	23,852	25,186	27,931
Creditors	781	692	823
Other current liabilities	11,829	15,954	14,307
Net current assets	**12,077**	**9,504**	**15,776**
Fixed assets	54,722	60,543	75,909
Intangibles	2	1	1
Investments	2,561	1,560	1,363
Other long-term assets	2,724	3,071	3,935
Total net assets	**72,086**	**74,679**	**96,984**
Borrowings	58,513	56,209	74,069
Other long-term liabilities	999	1336	1663
Shareholders' equity	**12,574**	**17,134**	**21,252**
Total liabilities	**72,086**	**74,679**	**96,984**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY18	FY19	FY20
Ebit	5,804	7,937	9,970
Tax paid	-1,908	-919	-2,379
Depreciation and amortisation	2,054	2,196	1,146
Net working capital change	216	563	(227)
Other operating items	1,424	-439	756
Operating cash flow before interest	7,590	9,338	9,266
Financial expense	(5,182)	(5,434)	(6,297)
Non-operating income	335	981	925
Operating cash flow after interest	**2,743**	**4,885**	**3,894**
Capital expenditure	**-4,860**	**-7,686**	**-13,842**
Long-term investments	-49	126	-772
Others	353	719	121
Free cash flow	**-1,813**	**-1,956**	**-10,599**
Equity raising	0	0	0
Borrowings	854	2,130	11,654
Dividend	-596	-257	-597
Net chg in cash and equivalents	-1,555	-83	458

Source: Company, IIFL Research

Disclosure: Published in 2020, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2020

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A graph of daily closing prices of securities is available at http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp, www.bseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Name, Qualification and Certification of Research Analyst: Mohit Agrawal (Chartered Accountant)

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Key to our recommendation structure

BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

Distribution of Ratings: Out of 229 stocks rated in the IIFL coverage universe, 113 have BUY ratings, 10 have SELL ratings, 78 have ADD ratings and 27 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.