"Brookfield India Real Estate Trust Q1 FY24 Earnings Conference Call"

August 14, 2023

MANAGEMENT: **MR. ANKUR GUPTA – MANAGING PARTNER, BROOKFIELD ASSET MANAGEMENT**
MR. ALOK AGGARWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED
MR. SANJEEV KUMAR SHARMA – CHIEF FINANCIAL OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Brookfield India Real Estate Trust Q1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode until the floor is open for questions. Should you need assistance during this conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the management. Thank you.

Alok Aggarwal: Thank you. This is Alok. Very good evening to everyone. Welcome to the Earnings Call for Q1 FY2024.

At the outset, I'm pleased to say that we're on track to comple the acquisitions of Downtown Powai and Candor TechSpace G1 in partnership with GIC. Like we had stated at the time of announcement of acquisitions, these transformative acquisitions will significantly increase our operating scale and diversify our portfolio. We have secured 27 billion of equity to finance the acquisitions. Thanks to the support from our existing unit holders and new investors, we raised Rs. 23 billion through the recently concluded institutional placement.

Further, we have a commitment to raise Rs. 4 billion from the sponsor group through our preferential issuance, subject to the unit holders approval which is scheduled for the end of August. With this, we are well placed to complete the acquisitions of Downtown Powai and G1 during the ongoing quarter. These acquisitions will lead to our total area increasing by 35% and our operating area increasing by 44%. There will be significant improvement in geographic diversification with Mumbai and Gurugram becoming the largest geographies by value in our portfolio. The top five tenant concentration will reduce from 51% to 31%, with the share of BSFI tenants increasing by approximately 10%. During the quarter, our current portfolio witnessed gross leasing of 0.3 million square feet at a releasing spread of 42%. Additionally, 0.1 million square feet of LOIs are under execution.

We renewed our lease with a market tenant at N1 at a 49% higher rent than the expiring rent. Our existing leases have delivered a robust embedded growth with a 9% average escalation on 1.7 million square feet during the quarter. The physical occupancy at our campuses continued to improve. That, combined with our robust leasing pipeline of 1.2 million square feet, gives us confidence that we'll be able to backfill the expiries in this year.

We have achieved a 5% increase in our adjusted NOI run rate over the same quarter last year and have generated NDCF per unit of Rs. 4.91 per unit in line with our current quarterly run rate. Considering the impact of the additional units that were issued as part of the institutional placement, we are distributing Rs. 3.85 per unit for the quarter.

Our portfolio has robust embedded growth that will grow our NOI organically by approximately 16% from balance leasing and growing physical occupancy, aiding margin recovery. This organic growth coupled with potential inorganic growth from the 25 million square feet of high-quality sponsor assets in Bangalore, Mumbai, Chennai, Delhi and Pune provides for strong medium to long-term growth trajectory for our REIT.

We have continued to achieve success on the ESG front. We are transitioning our campuses to consuming green energy and approximately 28% of the electricity consumption in the last quarter was from green sources. Candor TechSpace K1 achieved 100% green energy status in the last quarter. We achieved an IGBC Gold Rating for Kensington and IGBC Platinum Rating for the recently completed Towers, Tower 11 and 11 A, at Candor TechSpace N2. With this, the entire campus of Candor TechSpace N2 is IGBC Platinum rated. We also won the Golden Peacock Award for energy efficiency in the real estate and construction category for 2023. We continue to take incremental measures to ensure that our assets are green, efficient, resilient and future fit, so that we can achieve our net zero target by 2040.

Now, I would like to invite Sanjeev to provide the financial updates.

Sanjeev Kumar Sharma: Thank you, Alok, and good evening everyone. Our fundraising program for the acquisition of Downtown Powai and Candor TechSpace G1 has progressed very well over the last month. I am delighted to announce that we have successfully raised Rs. 2,305 crore through our first institutional placement, which saw robust participation from both existing unit holders and new investors. We issued 9.1 crore units to 64 institutional investors with participation from all categories of investors. This institutional placement has also led to an approximately 60% increase in free float. New investors have subscribed to approximately 65% of the issue, which has led to significant diversification of the investor base. We have secured a commitment of Rs. 400 crore from our sponsor group through the proposed preferential issuance, which is subject to approval at the unit holders meeting scheduled on 26th August 2023. The proposed preferential allotment is at around 25% premium to the current price, demonstrating the long-term commitment reposed by the Brookfield Sponsor Group in Brookfield India Real Estate Trust.

Post the completion of fundraise, the Brookfield Group would continue to be the largest unit holder with approximately 44% of the unit holding. With the combination of this institutional placement and preferential issuance, we have secured the funding for the acquisition of Downtown Powai and Candor TechSpace G1. We expect to achieve closure of our first commercial paper of Rs. 750 crore this month and have secured investor commitment from several reputed mutual funds. The proceeds from the commercial paper issuance will be issued to right size the SPV level debt at Downtown Powai and Candor TechSpace G1. We have achieved a stable NDCF of Rs. 164 crores, in line with our quarterly run rate that is Rs. 4.91 per unit. Considering the additional units that were issued as part of the fundraising through the institutional placement, the adjusted NDCF per unit is Rs. 3.86 per unit for Q1 FY2024.

The board has approved the distribution of Rs. 164 crore or Rs. 3.85 per unit this quarter. With completion of the acquisition in quarter Q2 FY2024, we expect the full benefit of the acquisition to flow through to our distributions from Q3 FY2024 and organically grow thereafter. We have witnessed a growth of 4% in our operating lease rentals to Rs. 211 crore compared to the same period last year. The adjusted NOI for this quarter grew by 5% to Rs. 245 crore compared to Q1 FY2023. We continue to hold a significant organic growth potential of 16% in our existing assets, which can be achieved through the lease up of vacant area and margin recovery. Further, our NOI potential will significantly increase upon the addition of Downtown Powai and Candor TechSpace G1 to the portfolio.

Our robust balance sheet had a loan to value ratio of 33% and average interest rate of 8.2% as on 30th June 2023. Our debt structure has ensured that we have limited amortization of only 5% till FY2026. The SPV level debt at Downtown Powai and Candor TechSpace G1 is also at a repo rate linked competitive rate of 8.5% per annum with limited amortization over the next few years.

With this, I would request the moderator to open the floor for Q&A, and thanks to all.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Puneet from HSBC. Please go ahead.

Puneet: So, my first question is when does this acquisition finally get through and post the acquisition, do you still have rights to the cash flows from the acquired assets from 1st **April** onwards or does it start accruing from Q3?

Sanjeev Kumar Sharma: So, Sanjeev here, Puneet. The acquisition we expect to complete by end of the current month and as far as cash flows are concerned, it's on all earnings post acquisition plus whatever will be as an opening cash balance on the day of acquisition in these SPVs, REIT will have right over that.

Rachit Kothari: Puneet, the income support on G1 will kick in from the 1st of this quarter, which is the 1st of July.

Puneet: Right. But the cash flow, would it have changed from what you first indicated or the opening cash balance or would that also be the same?

Rachit Kothari: So, opening cash balance as far as Powai is concerned, there is about 23 crores of opening cash that will continue to remain unvalued and the REIT will not pay value for it, but that will become available for distribution in the quarter ending 30th September.

Puneet: And the earnings that the asset would have accrued in the first five months?

Rachit Kothari: Not in the first five months. So, the earnings of any cash flows from end of August onwards, by which point in time we should have closed the acquisitions will accrue to the REIT. So, there are three components, one is income support starting first July, there is 23 crores of opening cash in Powai and there are any cash flows that may accrue after 31st August.

Puneet: And what is the plan on the debt side, there was some repayment of debt which was planned at present, part of it will go through, what happens to the rest?

Ankur Gupta: Puneet, this is Ankur. Just like with every acquisition, there will be a change in the capital structure to align with what capital structure of a REIT-owned SPV should be, both in terms of type of amortization as well as the quantum of debt. And part of the proceeds of capital raising is used for that debt capital structure that befits the REIT-owned SPV.

Puneet: No, last time you were indicated almost Rs. 1,350 crores of repayment of debt I presume after the Rs 2,700 that you've raised, Rs 2,400 or 2,600 will go into your share and the balance would go into the payment of debt, right and some debt will still remain and that will remain same?

Ankur Gupta: The SPVs will have the right amount of leverage, and these SPVs are currently privately held, so there is a slightly higher leverage than what the public REIT should have. So, parts of the capital raising are going towards that debt resizing.

Shailendra Sabhnani: So, Puneet, I'll just add here. The 1,350 crores of debt will fully get replaced at the SPV level by shareholder loan. 50% of this will be contributed by the REIT and this will be effectively through the CP issuance that is underway. The balance half comes from our counterparty, where again the transaction is committed. So, effectively whatever we had articulated on the 1,350 crore happens in entirety.

Puneet: And lastly, what are the roadblocks to this acquisition, I presume it's just procedural now?

Rachit Kothari: Yes, that's correct. It's all procedural. We expect to conclude both transactions this month.

Puneet: One on the operational side, I noticed that the average escalation for the 1.7 million square feet was about 9.1%. How should one read that? Should it not have been between 12% to 15%?

Sarthak Patel: We have explained that in the footnote below. The Candor assets had an average escalation of 13% and the Mumbai asset had an average escalation of 4%. This is because the Candor assets have an escalation once every 36 months and Kensington has an annual escalation.

Moderator: Thank you. Next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: My first question is that your loan to value on a post-acquisition basis seems like might move into the high 30s by next quarter? So, is the plan to maintain that level of LTV or would you intend to bring this down in the subsequent quarters?

Shailendra Sabhnani: So, Kunal, the long-term plan would be to bring it down as we stated historically. We would be sub 35% on an ongoing basis. Again, if we basically look at the debt including the CP issuance that we are doing, we'll be somewhere in 36% to 37% range which we would look to bring down in due course over a period of time.

Sanjeev Kumar Sharma: And just to add here what Shailendra mentioned, this high 30s is coming because of one accounting treatment also because the partner's shareholder loan is going to be treated as loan while calculating LTV, otherwise it is as good as shareholder loan from REIT and shareholder loan from the partner.

Kunal Tayal: The next question is on the physical occupancy it has seen a solid improvement; just want to refresh what your definition is. Is this like any seat getting utilized or occupied anytime during the week or is there a filter like it needs to be occupied twice or thrice a week at a minimum?

Alok Aggarwal: Yes. So when we say 66% physical occupancy, what we're saying is if there are thousand seats in the campus on a particular day, then 66% are occupied. And of course, this is a peak and generally the physical occupancy is higher on Tuesdays, Wednesdays and Thursdays. That's how we should treat it.

Kunal Tayal: Is that an average across per week or like on a daily basis that you calculate? I'm trying to understand if someone were to come in once a week, will that count as part of the 66 or will it count as 0.2% after?

Alok Aggarwal: See now what is happening is generally most of the companies have mandated three times in a week and as time is progressing, they're kind of making it mandatory. Till now, while they had mandated this, but they were not very particular about it. So, I would say in most of the companies, exceptions leave apart, people are coming at least two times a week. But we should take it as a maximum on a particular day, which could be Tuesday, Wednesday or Thursday. But yes, if somebody comes once in a week on that particular week, it will get counted.

Kunal Tayal: And then last one would be great if you could just sort of help us with what is the latest you're hearing from your IT services tenant base both in terms of incremental space requirement as well as the return to office front? Thank you.

Alok Aggarwal: Yes. So, I think the writing on the wall is clear. People, and I would not say the statements I'm making are universally applicable to everybody, but I would say large number, large percentage of companies are very clear, they want people back to office. There's no two ways about it. Of course, everybody has gone for a hybrid work culture. That's true. This means they want people, some of the people they want three days in a week. That's where they want people and also please understand that most of the companies have kind of downsized considering this hybrid work culture. So, what we're saying is at least most of the companies are seeing at least 5% to 6% growth in terms of employees, they are expecting year-on-year growth and they already have downsized to the extent necessary. They already have rationalized their real estate portfolio, which is present right now. So, as people will come back and as we see businesses grow, incremental real estate requirement will come up quarter-on-quarter, that's very evident.

Moderator: Thank you. Next question is from the line of Shirish Vaze from Money Life Advisory. Please go ahead.

Shirish Vaze: So, my question pertains to the acquisition. So, the average dilution price comes out to somewhere about 260, including both the institutional placement and the preferential issue, which represents 22% discount to our pre acquisition NAV. While we are acquiring assets at a 12% discount to NAV, the new assets. Just wanted to understand, would this lead to a reduction in NAV for existing investors before the acquisition and how should existing investors look at this acquisition? Thank you.

Ankur Gupta: This is Ankur. The largest existing investor is Brookfield in this case and as a board and as sponsor, we are supportive of growth simply because of the quality of assets that we are adding to the portfolio. While all of us would like to believe that everybody can time the market, but we are also in the phase of the growth of the REIT business in the country. And some amount of dilution with prospects of long-term value creation is important for all of us in this business and that's how I would like to read these numbers. If you look at the quality of income profile that is being added to the REIT, the stability and the diversification that it provides and again, I would reiterate the quality of portfolio that we are on track to develop with this acquisition and with the pipeline that we can demonstrate. I think investors today long term will be better served with the larger business and with the demonstrated path of both liquidity creation in terms of more float as well as a more diversified portfolio.

Shirish Vaze: Do we have a number or a rough estimate what the post-acquisition NAV would look like on a per unit basis?

Ankur Gupta: As per the regulations, we are supposed to update NAV on a six-monthly basis, but you can take the March NAV with the Rs. 260-ish per unit and do the math, but Brookfield’s contribution will be right around the NAV mark, so you can use that as a proxy as well, so about Rs. 315 odd, approximately, I could be wrong by a few cents here or there.

Shirish Vaze: Next question is on, so we have used about 750 crores in commercial paper as a bridge financing. So, how are we looking to retire this like, are we looking at an additional equity raise down the line or will be replacing it with a longer-term debt?

Shailendra Sabhnani: So, Shailendra here. There are basically two ways to eventually settle the CP. One could be to roll this over through a NCD program at the REIT. As you may see, there are no maturities that are coming in our existing debt portfolio both on the existing assets and the assets that we are acquiring, those are all long-term facilities with no near-term maturities or very limited near-term maturities. So, we could very well do a bond. The other path that we could potentially take is to effectively replace this with an equity raise. If you actually look at the stated intent, when we had announced these acquisitions was to look at a Rs 3,400 crore fundraise potentially in one or more tranches. With the QIP and the preferential allotment, we have done a Rs 2,700-crore effective fundraise and the balance could over a period of time be done to retire the CP eventually. These are the two possible routes. We will take our own calls based on various other parameters that are appropriate at that point in time to eventually deal with this.

Shirish Vaze: So, my last question relates to our committed occupancy. So, in our existing portfolio across all our assets, we have seen a declining committed occupancy in this quarter. So, are we seeing any system wide reason for this because this is across geography?

Alok Aggarwal: No, not really. I would say what's happening is we are projecting a 1.2 million square feet of expiries and we also projecting a 1.2 million square feet of gross leasing. There could be some timing gap which could be leading to declining occupancies, but also keep in mind that occupancies in some of the assets have really gone up in last 2 to 3 quarters, so there's no trend, I mean there's really no trend. It's just a question of timing here and as the leasing would happen as we're projecting, it should pick up.

Moderator: Thank you. Next question is from the line of Puneet from HSBC. Please go ahead.

Puneet: My question is on the CAPEX for G2. So, that has gone up to almost 200 million. Can you explain the nature of this CAPEX and can you also explain broadly what sort of maintenance CAPEX would you need to do for these properties going into future?

Sanjeev Kumar Sharma: Sanjeev here, Puneet. There are some regulations which require CAPEX to be incurred for green energy in NCR. So, we are going to do that in G2 as well as Noida assets. So, you may find that some increase there because of that green kit which is going to be used for gas based green energies.

Puneet: You mean the gensets, the gas based gensets that you have to put?

Sanjeev Kumar Sharma: Yes. The kits will be required for gas-based generation.

Alok Aggarwal: So, you see, these regulations have been coming from last 3-4 years and they have then gone on a backseat. We have to be ready for these even if these go on a backseat, as we have to gradually take it up. But right now, we want to cater for it because it's a requirement.

Puneet: And would you need similar CAPEX in other geographies also given that genset regulations have changed from Q3 to Q4 as well across the country now?

Alok Aggarwal: Right now, largely for NCR - Gurgaon and Noida.

Puneet: What kind of maintenance CAPEX should one assume on a yearly basis for your assets?

Alok Aggarwal: Maintenance CAPEX will not be there. This will be one time CAPEX. There's no further maintenance CAPEX required.

Puneet: Any comment would you want to make on the Kensington vacancy, which has gone up a bit?

Alok Aggarwal: I would say if you talk about Kensington, yes, we had a expiry, but we have a good pipeline and we should be able to gradually fill up the vacant spaces at, I would say good mark to market.

Shailendra Sabhnani: Puneet, I can just add. There was one IT services player who surrendered 100,000 square feet of space which largely contributed to this, but you may have also seen that we've done about a million square foot or just under a million square foot of renewal with TCS. On an overall NOI basis, this is far more additive and we have a fairly healthy pipeline in Kensington. So, we think all of this will get back to normalization and presents a good opportunity for us to scale up.

Puneet: So, what kind of timeline should one assume for this fill up of the vacancy?

Alok Aggarwal: I think we can be somewhere 90% plus sometime next year.

Puneet: 90% in next fiscal year?

Alok Aggarwal: Sometime next year, whether it will be Q2, Q3, very difficult to time it, but yes, we should be 90%. We should cross 90%.

Moderator: Thank you. Next follow up question is from the line of Shirish Vaze from Money Life Advisory. Please go ahead.

Shirish Vaze: I just have two more questions. So, after the completion of the acquisition on a consolidated basis, what would be your total floating rate debt percentage?

Shailendra Sabhnani: So, we are entirely floating rate at this point in time at the SPV level. Post our CP issuance, the CP issuance will be a fixed rate instrument.

Shirish Vaze: And we also have a few ROFO assets in Powai. So, do we have a sort of a timeline in mind when that acquisition will sort of come up for us?

Ankur Gupta: This is Ankur. We are just about to complete a massive acquisition. So, let's take a moment to consolidate that. Many of the assets in Powai that are in the ROFO are still some time away from stabilization or being the right fit for the REIT. So, the board will take a call on those, but those are again smallish assets at this point.

Moderator: Thank you. Next question is from the line of Kunal Lakhan from CLSA India. Please go ahead.

Kunal Lakhan: On NDCF, this quarter we did about Rs 1,642 million. If we exclude the impact of the income support from the acquisition, how much would that be, because you said that the income support started on 1st of July, so how much would that be?

Rachit Kothari: So, Kunal, income support will reflect in the next quarter distribution. This is the distribution for the period until 30th June.

Kunal Lakhan: And lastly like your distribution per unit 3.85 adjusted for this is adjusted only for the QIP done, 23 billion QIP done and it's still the 12.7 million from a preferential issue would again reflect would probably get that number lower than 3.85?

Rachit Kothari: That's correct. That's about 3% of post money holdings. So, this number would have looked like 3.75 if we had those units in the mix as well.

Kunal Lakhan: Sure. And post-acquisition that I think Q3 would be the full quarter, which will reflect the full impact of acquisition. Would you expect the DPU to hold back to 5 bucks per unit, which was there last year on an average?

Ankur Gupta: So, look this quarter and the next quarter has a bit of noise. This quarter because the distributions are from previous year's earnings on a larger equity base. Next quarter will have or the quarter that we are sitting in right now will not have full income on all the units from the two acquisitions. So, there will be some noise between call it the quarter that we're reporting right now and the current quarter that we are in, but on a steady state basis, as we laid out the income profile of these assets, which have now doubled in size to almost Rs 2,000 crores steady state. So, I would expect our distributions to go back to the levels that we previously reported, which is Rs. 5 a quarter.

Kunal Lakhan: Q3 onwards you are saying?

Ankur Gupta: Q3 onwards. That would be our expectation.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to the management for closing comments.

Alok Aggarwal: So, we had an eventful quarter and the business is looking pretty solid. I think the worst is behind us, and that's the message I want to give. The worst is behind us and we're looking for occupancies to move up and we'll be able to achieve our performance. Thank you so much.

Moderator: Thank you very much. On behalf of Brookfield India Real Estate Trust, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.