“Brookfield India Real Estate Investment Trust Q4 FY'24 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, good day and welcome to Brookfield India Real Estate Investment Trust Q4 FY'24 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 the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

On the call, we have the following persons:

Mr. Alok Aggarwal – Chief Executive Officer and Managing Director, Brookprop Management Services Private Limited, Mr. Ankit Gupta – President, Brookprop Management Services Private Limited, Mr. Amit Jain – Chief Financial Officer, Brookprop Management Services Private Limited, Mr. Rachit Kothari from Brookfield, Mr. Shailendra Sabhnani from Brookfield.

I now hand the conference over to the management for opening comments. Over to you, sir.

Alok Aggarwal: Good morning, everyone. On behalf of Brookfield India Real Estate Investment Trust, I extend a warm welcome to all participants joining us today for this conference call.

At the outset, I would like to give a brief overview of the macro picture in India and the impact it has on the commercial office sector.

India has emerged from the pandemic as one of the fastest growing large economies in the world. The Indian GDP is expected to grow at about 7% to 8% annually, if not higher, over the next five years. This growth will be driven by increasing outsourcing to India, growing domestic demand and the rapid proliferation and expansion of global capability centers, which we call GCCs. These factors will lead to India emerging as the office to the world, which will drive the demand for Grade-A office assets.

Over the course of 2022-23, we saw a lot of rightsizing and rationalization of office spaces despite significant hiring by tenants as they were offering the work-from-home culture. This is visible across geographies, across property owners in our country. However, as tenants are now either fully back-to-office or have adopted hybrid strategies, the demand for office space to house all the employees that were hired over the course of the pandemic is picking up. Even though occupancies are not back to pre-COVID levels yet, we are experiencing a clear revival in leasing.

We have also witnessed a massive influx of global capability centers in India over the last few years due to the attractive talent and cost structures that India has to offer. In fact, till 2030, India is hoping to add about 100 GCCs every year, significantly adding to the existing base of approximately 1,600 GCCs present in India. The recently announced SEZ reforms have also come as a boon to property owners, such as us, given that we have a high proportion of SEZ spaces in our portfolio.

We are progressing well on our plan on conversion of SEZ spaces to non-processing areas and are seeing a strong interest from occupiers for leasing such converted spaces.

In addition to this, the fact that Indian economy is doing well, is also driving up demand from domestic companies and there too, the SEZ reforms are quite a positive development for us. All these factors are supporting the turnaround in the demand for office space and Brookfield India REIT is well poised to cater to this demand.

Coming to our performance in this quarter, I am happy to report that we have achieved a third successive quarter of record new leasing since IPO at 0.9 million square feet for this quarter. This includes a 0.3 million square feet lease that we have signed at Kolkata with a leading Indian bank for converted SEZ space. Additionally, we have signed a short-term lease with the same bank for more than 0.3 million square feet which is to be used as an incubation space for up to a year until their primary office space becomes operational. This short-term space is not included in the 0.9 million square feet number. So, overall, if you see, that number is 1.2 million square feet.

We have achieved a new leasing of 0.7 million square feet in our SEZ portfolio, which is almost 4x of our historical average and speaks to the strong demand that we are seeing for our high-quality campuses. The tenants that have been signed in the last quarter include the leading Indian bank that I just mentioned, Larsen & Toubro, Tech Mahindra, Concentrix, Teleperformance, R1 RCM, Mott Macdonald, Dorling Kindersley, and the global capability center of the Brookfield Group itself.

With the new leasing of 0.9 million square feet in the last quarter, we have already achieved approximately 40% of our new leasing guidance of 2.0 to 2.4 million square feet till FY'25. This gives us confidence that we are well on track to meet and hopefully exceed our guidance.

Our occupancy during the quarter has increased from 80% to 82% and we hope to have bottomed out on that front in the last few quarters. We have a relatively low scheduled expiry load in FY'25 with only 0.4 million square feet of expected exits and 0.6 million square feet of expected renewals. Given that our leasing guidance provided last quarter guides for a further new leasing of about 1.1 to 1.5 million square feet this year and with lower a low expiry load, we expect a continuous improvement in net leasing and expect occupancy to show substantial improvements over the course of the next 12-months.

We would like to highlight that our Kensington asset is nearing stabilization as it has achieved an occupancy of 95%. We also have seen strong demand in Kolkata market, something that we had alluded to earlier, and our Kolkata asset has reached an occupancy of 88%. In fact, it's currently at 98%, if we were to consider the short-term lease there that we have signed up with a leading Indian bank.

We have more long-term demand in Kolkata, and we are synchronizing to ensure that when this short-term space gets vacated, we're able to tie-up back-to-back with the long-term demand.

For the fiscal year FY'24, we achieved a gross leasing of 2.8 million square feet including 1.9 million square feet of new leasing and 0.9 million square feet of renewals. The 1.9 million square feet is the best annual new leasing we have achieved since our IPO, with expansion plans of existing tenants capturing almost three-fourth of the new leasing demand.

The gross leasing during FY'24 was achieved at an average spread of 17%, which indicates that we are successfully able to achieve the intrinsic mark-to-markets of our assets through new leasing and renewals.

Our application for conversion of 1 million square feet of SEZ area into non-processing area has received positive response from both SEZ authority as well as prospective tenants. We have already received in-principle approval for conversion of 1 million square feet and we are in the process of applying for conversion of further about 0.2 million square feet. As stated earlier, we have already signed a lease of 0.6 million square feet converted space at Kolkata, split 50:50 between short-term and long-term space. We are in advanced stages of procuring all necessary approvals for the conversion of 0.6 million square feet space in Kolkata so that the new tenant can begin using the said space.

We have displayed strong organic growth with our existing leases having delivered a 7.4% average escalation on 1.6 million square feet during the quarter. In FY'24 we have achieved an average escalation of 7.4% on 6.8 million square feet.

Our mixed-use commercial development at Kolkata is progressing well and we have delivered and fully leased 75,000 square feet area in Downtown Powai during the last quarter.

Our high-quality portfolio has an embedded growth headroom of 16%, which will be realized through further leasing and growing physical occupancy aiding margin recovery.

We're also pleased to announce that we have signed binding agreements to acquire a 50% stake in dominant grade A properties in Delhi NCR from the Bharti Group. The portfolio is completely built and comprises 3.3 million square feet of operating area and has an occupancy of 91%. It primarily comprises three large office assets - Worldmark Delhi, which is an iconic 1.5 million square feet asset in Delhi's Airport district, Airtel Center, which is Airtel's 0.7 million square feet corporate facility located in Gurugram CBD, and Worldmark Gurgaon, a 0.8 million square feet mixed-use complex in Gurugram SBD.

The total equity consideration of Rs.12.3 billion to the Bharti group will be discharged through a preferential issue at Rs.300 per unit, which is at an 18.5% premium to the floor price.

With this, we'll be welcoming the Bharti group as a cornerstone investor in Brookfield India REIT with an 8.5% pro forma stake held by them. This acquisition will increase our consolidated GAV by 22% and our effective economic occupancy by 50 basis points. Our operating area will increase by 16% from 20.9 million square feet currently to 24.2 million square feet. The transaction has substantial diversification benefits and will reduce the top five tenant concentration to 24% from 30%, while increasing the share of Commercial / IT park assets from 34% to 46%. With this acquisition, we will welcome marquee tenants such as Bharti Airtel, E&Y, Airbus, CDPQ and SMPC into our portfolio. This acquisition is being done at a 7% discount to the GAV and is expected to lead to an NAV accretion of 0.9% and NDCF accretion of 1.1%.

The preferential issue is subject to unit holder approval. The date of unit holder meeting is scheduled for June 14, 2024. Post this acquisition, we will continue to have access to approximately 25 million square feet of the Sponsor Group's assets in key gateway cities in India, which provides a strong medium to long term growth potential for our REIT.

At this point, I would like to mention that Mr. Sanjeev Sharma, our ex-CFO has decided to move on and we thank him for his contribution.

I would like to introduce you to our new CFO, Mr. Amit Jain. Amit has been an important member of our leadership team and will be taking over responsibilities from Sanjeev. Amit has more than 20-years of experience in finance and operations, tax, regulatory affairs, fundraising and investor relationships. In the past, he has worked with organizations like E&Y, IDFC, Macquarie, and the Discovery channel.

With this, I would like to invite Amit to provide the financial updates. Thank you.

Amit Jain: Thank you, Alok, and good morning, everyone. I am pleased to be taking on this new role and would like to thank the board members and other members of the team.

With that, let me jump into the earnings for the 4^{th} quarter and full year of FY'24. There has been a substantial growth in earnings this year, driven by the acquisitions of Downtown Powai and Candor TechSpace G1. We have witnessed a growth of 91% in our operating lease rentals to Rs.405 crores compared to Rs.211 crores in the same period last year, and the adjusted NOI grew by 89% to Rs.461 crores compared to Rs.244 crores in Q4 FY'2023.

For FY'2024, we have seen an increase of 55% in our operating lease rentals to Rs.1,283 crores and a 57% increase in our adjusted NOI to Rs.1,506 crores. The increase is primarily due to the addition of Downtown Powai and G1 to the portfolio as well as our recent leasing performance and contractual escalations.

Our Gross Asset Value increased by 78% to Rs.292 billion as on March 31, 2024, compared to Rs.164 billion in March last year. Our NAV as on 31st March 2024 is Rs.333 per unit.

We have achieved an NDCF of Rs.205 crores this quarter, which translates to Rs.4.66 per unit. We are distributing Rs.4.75 per unit this quarter.

Our current adjusted NOI run rate on an annualized basis is Rs.1,840 crores and we continue to have significant organic potential of 16% in our portfolio, which can be achieved through the lease up of vacant areas and margin recovery.

We had updated you earlier that we have filed capital reduction schemes in some of our SPVs. One of the schemes has been approved by NCLT in May 2024, while a few others are at various stages of processing at the NCLT. We hope for these schemes to get implemented at different points over the course of this calendar year. The dividend component of distribution should get enhanced significantly post the implementation of these schemes.

We continue to maintain a dual AAA rating from ICRA and CRISIL on the back of our strong balance sheet, a long-dated maturity profile and limited refinancing and amortizations over the next few years. Majority of our loans are linked to the repo rate, and we expect to benefit significantly as benchmark rates begin to trend lower.

With that, I would request the moderator to open the floor for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: My first question is, if you can give some color on your new leasing pipeline and what is the occupancy that you expect for end of FY'25?

Alok Aggarwal: If you really see, our overall leasing pipeline is about 3 million square feet, about 2 million square feet is for SEZ and about a million square feet for non-SEZ space. We have said in the last call also and that's something we maintain, we hope that we should achieve our new leasing guidance of about 2.4 million square feet at the upper end. Considering that we have approximately 0.4 to 0.5 million square feet of expiries, we should have a net addition of around about 1.6 to 1.8 million square feet from the last quarter. So, we are hoping to cross around 90% by FY'25.

Puneet Gulati: Will it be back-ended leasing, or will it be evenly spread out through the year?

Alok Aggarwal: So, gradually we will keep increasing. If you really see, we have gone up about 225 basis points last quarter, without considering the short-term lease. The short-term lease is also about a year which we have not considered. We will see gradual increase every quarter, that we're very confident about.

Puneet Gulati: And on this short-term lease, is there any chance of it getting converted into long-term? And second, are you also doing some capex for this short-term lease?

Alok Aggarwal: So, let me just answer your second question first. We are not doing any capex for this short-term lease. There was existing fitted-out space available, we have provided that. There's a chance that it can get converted, but luckily we have more enquiries, so hopefully we don't have to wait for it to get converted. We have more enquiries and we're just trying to ensure that as this space get vacated, we're able to tie-up with long-term enquiries. There's enough and more demand, at least in Kolkata right now, it has really seen a big turnaround.

Puneet Gulati: And secondly on your acquisition, if you can just run us down, the EV that you guys have assigned to it is almost Rs. 6,000 crores. What is the debt that comes with this asset in our books?

Rachit Kothari: Net debt will be about Rs. 3,100 crores and I mean the rest is just of course the usual tenant deposit that will get taken over.

Puneet Gulati: So, essentially you're saying Rs. 6,000 crores minus Rs. 3,100 crores – Rs. 2,900 crores is the equity value which is being assigned, but you guys are paying essentially Rs. 1,230 crores for 50% stake, is that how one should read it?

Rachit Kothari: I think beyond the Rs. 3,100 of net debt, there are of course deposits and other liabilities to the tune of about Rs. 300-odd crores. So, you should look at an equity value of about Rs. 2,500 to 2,600 crores at a Rs. 6,000 crores asset valuation.

Moderator: The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Firstly on the acquisition, just trying to understand - Brookfield parent acquired this asset couple of years back at Rs. 5,000 crores. I think that transaction got completed last year. And now the valuer has put a valuation of 6,500 crores. So, just wanted to understand what has been the incremental changes in this asset post Brookfield taking over, is it just on the rentals or on the occupancy side as well, it was very low occupied when it was acquired and now it has gone up to 91% committed occupancy, so just your input on that?

Rachit Kothari: If I can just point you to page 14 of our acquisition presentation, the property was about 75% occupied when Brookfield's Private Funds had signed up the deal in 2022, it was a valuation for 2022. The 75% occupancy number was at Rs.120 average rent, which has now become 91% occupied portfolio at a Rs.140 average rent. So, the NOI has actually gone from slightly below Rs. 400 crores, which it used to be two years back, to almost touching Rs. 500 crores right now. And that 25% uptick in NOI is what has driven the valuation change.

Pritesh Sheth: And on the cap rate calculation, you mentioned that it's at 97% occupancy in FY'26. So, how confident are you about the leasing of this asset from here on?

Rachit Kothari: I will request Alok to add, but these properties have been occupied at those levels in the past, pre-COVID. If we were to look at asset-by-asset, Airtel center is almost 100% occupied today, Worldmark Delhi and Gururam are touching 90%. These are very high quality front office properties. There are many tenants who want to be in these properties. So, there's a good amount of confidence that we will be able to take these up to 95% which basically means the portfolio occupancy goes up to 97.5%, but I'll let Alok add on the leasing color as well.

Alok Aggarwal: So, if you really see, Airtel Center is 100% occupied. We have seen the occupancy for both Delhi and Gurgaon properties move up in past two years, and we have a strong pipeline for both of these assets, and we should be able to achieve the numbers we are projecting, we're very confident about that.

Pritesh Sheth: One on Kolkata. So, I think a great turnaround there and you have been highlighting about very strong leasing expected in Kolkata. What is your outlook on the asset now, by when can we see that getting fully leased, will the conversion of SEZ to non-SEZ be the key driver of that demand or we are still seeing a very strong SEZ demand in Kolkata as well? Since we are aiming for another 500,000 - 600,000 square feet of conversion in that asset, so what's the outlook there?

Alok Aggarwal: This is a good question, but I would say that turnaround in Kolkata which has happened, and we have moved from 70% to 88% or actually high-90s, that has happened for both reasons. We have seen good SEZ demand, but the kicker has really come in signing of this non-SEZ space by a leading bank, which would not have taken SEZ space. So, both things have worked to the advantage and we also have seen the rentals going up especially for the non-SEZ space - they have crossed 50s and we are also now looking to push rentals there. Having said that, there's more than enough demand and we are very confident that we should be able to achieve occupancy in terms of high 90s. We now have to just tie up whatever demand we have, so that as and when this short-term space gets vacated, we can fill it up back-to-back. So, that's something we are planning, we are working and feel confident and positive about being able to take this asset to high 90s.

Pritesh Sheth: Just lastly on the conversion. So, 1 million square feet already converted. Is it just that Kolkata one is leased out or we have seen any other progress in a converted space in terms of leasing? And your experience in terms of time taken for this conversion and how quickly we can convert the next 1.2 million square feet that we are eying for.

Alok Aggarwal: So, for 1 million square feet we already have in-principle approval. In Kolkata, we have applied for conversion of about 0.62 - 0.65 million square feet - that is expected to happen in next 10 days and the last leg of approval we're going to get in next 10 days. For other assets, probably it will take maybe four to six weeks. My experience is it takes about two months for getting the space converted .This time could be shorter in case there's a tenant waiting. So, that's where we are. But just to add that other assets also we have a strong demand for tenants who want non-SEZ spaces and we are working with these tenants to sign them up and parallelly take space for conversion. Once this 1.2 million gets leased, we can take more space. We want to take not all in one-go but after 1.2 million we'll go for the next round.

Pritesh Sheth: How much would be left after this 1.2, another million square feet is it?

Alok Aggarwal: That we will decide depending on the demand. We can convert up to 50%, but we will decide how much we want to convert.

Moderator: The next question is from the line of Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: So, my question is now on the NOI and NDCF. Now, that the leasing pipeline picking up, do we see a scenario where let's say the working capital movement might turn to our advantage and the impact on, let's say, the NDCF front could be higher than what the NOI growth could be for the similar set of leasing?

Alok Aggarwal: If you see our deck, we are saying 16% NOI growth we're already projecting and we'll keep that number there. As we move ahead and our leasing numbers, occupancies move higher, we can revise this number, but as of now, we're projecting a 16% increase in NOI. And in terms of NDCF, we already have said that for next another two quarters, we are hoping to distribute about Rs. 4.50 - 4.75 and after two quarters we will review these numbers.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: My first question is if you can talk about the confidence on leasing, the new acquisition portfolio in terms of more color because since it's more Gurugram-oriented. Worldmark Aerocity seems fine, Airtel Center seems okay, but on the other part, if you can talk a bit about what kind of tenants are you looking at and how good is the pipeline currently?

Alok Aggarwal: I have already mentioned the kind of tenants we have in Gurgaon as well as in Delhi. If you talk about Delhi, it's next to airport, and we have tenants like E&Y, we have Mitsui, we have CoWrks and Brookfield properties. Banks are there, a lot of Japanese companies are there, a lot of European companies are there. Whenever a company wants to open an office in Delhi, this is the first place of call and we have already seen occupancy moving up in the last two years and we are very confident that for the balance space we have a strong pipeline and gradually it should move up in Gurgaon also.

Puneet Gulati: So, these are all non-SEZ assets, right?

Alok Aggarwal: These are all non-SEZ - Delhi is non-SEZ, Gurgaon is non-SEZ, and it works very well with us because we have two SEZ assets in Gurgaon. Of course, now we are able to convert SEZ to non-SEZ, plus this asset we have which is again a non-SEZ asset. So, it kind of complements and supplements our existing portfolio. So, good addition here.

Puneet Gulati: Why would they still have 86% kind of occupancy, Worldmark Gurugram, Worldmark Delhi, why would they still be at 90, why not higher-end? Where are the market rents for Worldmark Delhi now?

Alok Aggarwal: So, if you see, we always have maintained that of course, occupancy is important, but we just try to always maximize the NOI, and that has been our strategy. And when pipeline is strong for Gurgaon and Delhi both, we'll gradually lease them up to maximize our NOI. So, that's in terms of strategy. For Delhi, of course, the rentals are in the range of 200 plus right now.

Puneet Gulati: Which is the in-place rent as well?

Alok Aggarwal: Yes. Rent is about Rs. 220 - 225 now, and in-place rent is about Rs. 200, . Rs. 225 - that's the number that we're leasing at.

Puneet Gulati: And Airtel centre is now 100% on, how old has that been? Because WALE is still small at 4, so how should one think about it? Is there any risk that they might move, or given that now they have sold their stake as well, and there is no vested interest?

Rachit Kothari: So, Puneet, Rachit here. So, Airtel has a 3-year lease left on this property. As a part of this transaction, they're willing to extend the lock-in by about 2 years. So, we'll get about 2 years of lock-in in the REIT ownership. Beyond that, there's 1 year of lease term that will be left. And beyond that, there's 1-year additional backstop that Bharti Group is giving to ensure that should the property take about a year to refurb and get leased again, we at least don't lose out on the cash flow.

Puneet Gulati: Refurb is your responsibility, right?

Rachit Kothari: The lease-up is our responsibility, but that's a leasing risk that we take in our business.

Alok Aggarwal: But just to add here, Puneet, Airtel Center is at a pretty marquee location right on the Expressway. As and when and if it gets vacated, it will not be difficult to lease, and we should be able to lease it fast and at a decent rental.

Puneet Gulati: And is there any indication from Bharti Group as to how long do they intend to keep owning the REIT units which they will get?

Rachit Kothari: We don't have any indication from them. The regulations prescribe for a 1-year lock-in. If you go through some of the press releases that have been put up, I think the intention of the group is to grow the partnership, so we see them as a long-term unit holder and also a provider of future assets going forward.

Puneet Gulati: So, there are more assets beyond this with them that you have in private space?

Rachit Kothari: Yes. I mean, look, there's nothing tied up today, but I think the group is fairly inclined given the promise of our vehicle and the long-term ownership mindset that they come with. I think, and if you can just go through some of the press releases that have put out with the quotes from senior management from there, we have great confidence that they will be a long-term unit holder and will also create a pipeline of assets for this REIT as they continue to develop on their private balance sheet.

Puneet Gulati: This is helpful. And lastly, Alok, just going back on the, you said net leasing of 1.6. Is it possible to give some more color in terms of which all assets are you looking at there and what would be the proportion for various assets?

Alok Aggarwal: So let me take it asset-wise. Kolkata, we are at 88%, if you don't count that short-term lease. If you count that short-term lease, we are at 98%. Our endeavor is that we tie up such that when this short-term lease is vacated, we're able to get our long-term players. So, there's more than enough demand. So, Kolkata is sorted. If you see Kensington, it is at 95% and hopefully it will grow. I mean, it's a small asset, 1.6 million, heart of Bombay, very strong demand. So, hopefully we should be able to take it further above from 95%. Powai, we are at around 90%, but there also leasing pipeline is there. So, now our endeavor would be to take it further, we should go beyond 90, and that's in terms of Powai minus Kensington. N1, as we have always said, it's around 97% - 98%. There's hardly any office space. There's a bit of amenities space that we're working on to kind of ensure that that gets leased up.

So, if you really see these 4 assets are, I think, at least in a decent space. Now our effort is on in both Gurgaon assets, G1, G2, and N2, which is in Noida. These 3 assets - the good part is that the SEZ reforms has done a great favor, is a great kind of outcome. So, we have a demand from SEZ as well as non-SEZ tenants, and we are hopeful that in the next 12 months, we should be able to meet our leasing guidance, hopefully at upper end. We should be able to meet our leasing guidance, and in these 3 assets also, our occupancy should go up. Does that answer your question?

Puneet Gulati: Yes, that's fine. That's helpful. Thank you so much. And expiries on G1, will that impact earnings at all, given that there is no income support there?

Alok Aggarwal: No, there's a very limited expiry in G1.

Moderator: The next question is from the line of Yatindra Agarwal from SUD Life. Please go ahead.

Yatindra Agarwal: My question is, what will be the actual occupancy of the lease? So, 82% is the committed occupancy and 87% is the economic occupancy. So, what's the actual occupancy of the lease?

Alok Aggarwal: Sorry, can you repeat the question? Actual occupancy? Now, so that's what we are saying, actual is 82% right now, without the acquisition benefit. With the acquisition benefit, it will be 82.5%.

Yatindra Agarwal: But that 82% number includes the committed occupancy which will be coming over the period of next 6 to 9 months or a year. So, what will be actually occupied with how much we are earning rentals right now?

Alok Aggarwal: No. Whatever is going to come up, that will lead to occupancy increase. Right now, it is 82%. And whenever more leasing happens, then the occupancy will keep moving up.

Moderator: The next question is from the line of Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: Thanks for taking my follow-up question. So, my question is regarding the Delhi Aerocity Market. Now, obviously, over the last 15 odd years, it has done well. But there is a fair bit of supply, I think, in the pipeline also. If I'm not wrong, I read in the newspaper that they're looking at almost some 4 million square feet of new office space by 2029. So, in your sense, what is the kind of demand which is there in that particular micro market? And how do you see, let's say, occupancy for the entire Aero City district and rental growth moving up, let's say, over the next decade or so?

Alok Aggarwal: So, let me take this question first. See, in terms of when you talk about this Delhi Aerocity market, one thing is it's pretty unique. It is unique and many of the companies which want to start offices in Delhi, I mean, this is their first place of call. And that's why we are seeing occupancy moving up, we are seeing rentals moving up, and the supply which comes in Gurgaon and that doesn't compete with the Delhi micro market. Of course, we have enough pipeline for the vacancy what we have, and we feel that this existing vacancy will get occupied. In terms of rental moving up, it's difficult to say how much percentage rental will move up annually. But 5% to 7% rental moving up in any micro market is something given, that continues to happen on average, I would say.

Moderator: The next question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Thanks for taking my question and congratulations on marquee asset acquisitions. I had a few specific questions relating to the acquisition. First, if you can help us understand the broader timelines for completion of the acquisition, that's question number one. Second, as part of the acquisition where you're acquiring Aerocity Worldmark portfolio, Bharti also has few projects under development, that's Worldmark 4, 5, 6, 7 and World Mall. So, is that something which will be considered under active discussion at some point? I understand that's currently part of Bharti realty portfolio and not the JV. So, if that's the case, some sense on that. And third, if you think of the acquisition again, where you're also acquiring Pavilion Mall in Ludhiana. So, how should we read this? Will there be more acquisition in the retail front or is this a one-off that you're acquiring?

Alok Aggarwal: I will request my colleague, Rachit, to take these questions.

Rachit Kothari: Yes. Can you repeat the first question that you asked?

Karan Khanna: The first question is on the timelines for completion of the acquisition.

Rachit Kothari: The timeline for completion is about 45 days from now. I think our unit holder meeting has been scheduled for 14th of June, following which in about 15 days we should be able to conclude. There are a few other very small conditions precedent, which we don't expect to be a bottleneck as we pursue this transaction. On the first one, look, honestly, by June 30, we should expect this asset to have come to the REIT to the extent of a 50% stake. On your second question, yes, you are right. There are more developments happening, but the way we view it is strengthening of this district. In many ways, we see this as the BKC of Delhi, because of the superior infrastructure connectivity, great roads, the metro is already operational, great proximity to the airport, good access from both Gurgaon and Delhi. So, I think from that perspective, we see this as a location for the future, and to that extent, whatever Bharti Realty is building should only strengthen the character of this location as an office micro market, including a large mall, which will be fairly state-of-the-art. So, that's how we view their development. Today, there is no understanding on those assets, but as and when they get built and leased, they may become suitable for the REIT to pursue should Bharti want to sell. So, that's how we view it. On the third question, Pavilion Mall, yes, it's a one-off. It's a part of the portfolio, couldn't be segregated. So, at this point, I think there's no intention to pursue mall acquisitions as a strategy. However, of course, since this is a part of the portfolio, we'll continue to operate it.

Karan Khanna: And as a follow-up, how should we think of acquisition? Perhaps at some point, will you be also considering acquisition of balance 50% stake from Brookfield parent to make this a completely 100% part of the REIT?

Rachit Kothari: Yes, so the REIT already has a right of first offer on that stake. That parent still has about 2 years of regulatory lockup that is ongoing. So, once that expires and the fund wants to sell, the REIT will have a first look. So, it's a conversation for that point in time.

Moderator: The next question is from the line of Sumit Kumar from JM Financial. Please go ahead.

Sumit Kumar: Thanks for the opportunity and congratulations on being able to conclude a marquee acquisition. My first question is on the land for this new acquisition. If I understand correctly, it's on a leasehold basis from the Delhi Airport Authority. So, if you could give any color on what are the lease rental payments and what's the tenure of the lease? That's the first question. The second question is on the contractual escalation of 6.8 million square feet lease area is at 7.4%. So, what are your thoughts on this number? It looks a little bit on the lower side. So, I mean, those are my 2 questions.

Rachit Kothari: Yes, I'll take the first one. The lease is till May 2066. So, there are about 42 years left. At the end of those 42 years, there's an option to enter into the lease directly with the Airport Authority of India, at market terms then. So, that's on the tenure of the lease. So, 42 years straight that's available plus potentially a market renewal at that point in time. As far as the terms of the lease are concerned, there is about a Rs. 30 crore annual lease payment that is made and it's a part of a valuation report assumptions as well. There's a Rs. 30 crore annual payment, which is fairly contracted for the balance 42-year term. So, there is no ground rent risk on the lease.

Sarthak Patel: And I'll take the next one on the escalation. So, Sumit, we had 6.8 million square feet of escalation which was due in the year, and we have been able to realize them all. So, there isn't any renegotiation on that if that's what you're asking.

Alok Aggarwal: And just to add, Sumit, I don't know why you're saying that's a lower side.

Sumit Kumar: Sir, because generally contractual escalations happen every 3 years and in the range of 12% to 15%. So, I just wanted to understand, is my understanding correct or is there something adjusted in that number?

Alok Aggarwal: Let me answer that. So, in some of the assets we have 12% to 15% every 3 years. At places we also have annual escalations. So, this number is somewhere between them. Somewhere we have annual, somewhere we have 12% to 15% and this 7% plus number is a kind of average of these two. Does that answer your question?

Sumit Kumar: Yes, sure. Just one last follow up on the acquisition, sir. Given that it's already at 91% and there is a little bit of MTM potential, is there some sort of synergy that you're looking at or in the margin expansion here? Because currently at the run rate numbers, the NDCF accretion is 1.1%. So, wanting to understand what is the scale up that you're looking at with this portfolio?

Alok Aggarwal: Rachit, would you like to answer this question?

Rachit Kothari: Yes, maybe I'll take this. So, look, today, if you just refer to our disclosures that we've put out on the NDCF computation on Page 17, we're looking at about a Rs. 21 crore NDCF at Brookfield REIT share of 50%. This is at a, I'd call it, Rs. 480 odd crore NOI rental number, right? This number can go up to Rs. 550 crore in 2 years if we're able to lease these properties up to a 98% occupancy. So, that Rs. 50 crore, at 50% share of the REIT, is another Rs. 25 crores that can flow through on an annual basis, which means another Rs. 4 crores on a quarterly basis. So, this Rs. 21 crore number or Rs. 22 crore number that you see can look like a Rs. 25 crore or a Rs. 26 crore number once the properties hit a 97% to 98% occupancy, as well as a near-term MTM that is available in the next 2 years.

Sumit Kumar: Fair enough. That's helpful. Thanks, and all the best.

Moderator: The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: I might have missed it, but just wanted to get an update on the assets where the occupancy is still on the lower side, G1, G2, and I think it was N2. So, what really is happening? Are we seeing some traction? And I think in a couple of these, the quarter-on-quarter occupancy has actually declined in one of these, I think. So, what really is happening there? Is it just the normal new leasing taking some time or do we still have some weakness in these particular assets?

Alok Aggarwal: Out of 7 assets we have, 4 assets we talked about that at least two around 90%, Kolkata and Powai, in addition to Kensington, which is also part of the Powai is 95%, and Noida – N1 is around 97% - 98%. So, 3 assets where occupancy is on the lower side - two are in Gurgaon, and one is in Noida, Sector 135. The good part is that in all 3 assets, we can convert SEZ space into non-SEZ space. We already have applied for conversion. We also have a strong and good pipeline for SEZ space as well as non-SEZ space, so that's the good part. So, we should see occupancies moving up in these 3 assets also, and incrementally in other assets also, that we are very confident about. And just to answer your question whether it has declined, we have declared in the last quarter that our occupancies have bottomed out, and from there on, in every asset, it's moving up. In none of the assets, it's declining. What declining happened, it happened last year. But if you see last quarter, occupancy is moving up across assets. Of course, somewhere they have moved up much faster, like in Kolkata.

Shailendra Sabhnani: Pradyumna, this is Shailendra. I'll just add, if you look at, all the SEZ assets, if you look at Kensington, for example, the occupancy had last year declined to 78%, it is up to 95% today. Kolkata was at 74%, we are at 88%, excluding the incubation space. This is a similar trend, and as these assets go through the life cycle, some assets get leased up faster, but the pipeline continues to be robust across all assets. So, we are pretty hopeful and confident that we'll start seeing similar growth as we go through the balance part of the year.

Pradyumna Choudhary: And for the space where we've asked for conversion, where we have applied for conversion to non-SEZ, do we have a good pipeline visibility over there for the non-SEZ space?

Alok Aggarwal: Yes. So, we have applied for 1.2 million. Out of 1.2 million, we already have signed leases for about 50%, and for the balance 50%, there is a good visibility, and for at least some of the spaces, we are at advanced stage of discussions for signing.

Moderator: The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Thanks for the follow-up. Just a couple of questions on distribution. So, one, I just want to understand, for this quarter, NDCF per unit was 4.66, and actual distribution is 4.75, so we'll fund the balance through our existing cash that we have, is it? Is my understanding right?

Amit Jain: Yes, that's correct, Pritesh.

Pritesh Sheth: And just on this distribution per unit getting back to about 5, earlier we have guided like it would take a couple of quarters more. With the kind of leasing that we have seen in this quarter, any update on that, or will it still remain intact with that timeline from second half onwards?

Alok Aggarwal: So, Pritesh, as what we have said, see, once we do the leasing, there's a bit of an initial 3 - 4 months of rent free also. So, of course, you would appreciate that after lease gets signed in, then tenants occupy, it takes about 3 - 4 months for rents to start flowing in. So, we would maintain that for next 2 quarters, we are at Rs. 4.50 to Rs. 4.75. And after two quarters, we'll review, and then we'll declare.

Moderator: Thank you. As that was the last question for the day, I now hand the conference over to the management for closing comments.

Alok Aggarwal: Okay. So, thank you everyone for joining today's call. We look forward to connecting with you next quarter.

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