“Mindspace Business Parks REIT Limited's Q4 & Full Year FY2021 Earnings Conference Call”

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(This document has been edited for clarity wherever required)

Moderator: Good afternoon Ladies and gentlemen, and welcome to Mindspace Business Parks REIT's Fourth Quarter and Full Year 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashay Shah, Assistant General Manager – Finance. Thank you and over to you, sir.

Ashay Shah: Thank you and good afternoon everyone. Welcome to the Fourth Quarter and Full Year 2021 Earnings Call for Mindspace Business Parks REIT. At this point, we would like to highlight that the management may make certain statements on this call that may constitute forward-looking statements. Please be advised that our actual results may differ materially from these statements. Mindspace REIT does not guarantee these statements or results and is not obliged to update them at any time. We would like to reiterate that, the acquisition of Asset SPVs by Mindspace REIT was effected on July, 30 2020. Consequently, consolidation of financials of these Asset SPVs with Mindspace REIT has been done effective 01st August 2020. Condensed Consolidated Full Year 2021 numbers therefore reflect 8 months financial performance of the Asset SPVs. However, for the purpose of comparison, in the earnings presentation, we have provided leasing numbers, pro-forma Revenue from Operations and Net Operating Income for full year 2021.

I would now like to welcome Vinod Rohira, CEO; and Preeti Chheda, our CFO. Vinod will share the business update and his views on the macro environment and commercial real-estate. Preeti will further share an update on the financial performance. We will then open the call to Q&A. I now hand over the call to Vinod.

Vinod Rohira: Thank you, Ashay. Good afternoon, everyone and thank you for joining Mindspace REIT's earnings call. When we did our last earnings call, the Country had started opening up post several months of disruption. Social life and businesses were beginning to get back to normalcy. While the nation was gearing up to an aggressive vaccination program, we are faced with the second wave of Covid-19. Health and safety of our near and dear ones has taken top priority. Lock downs and other restrictions on movement of people and goods has further disrupted the momentum and delayed the return to normalcy. Current situation necessitates making all efforts to get the entire workforce vaccinated with the help of the center and state governments.

Even in the given environment, with the help of cutting-edge technology, India has been on the forefront of delivering services which has enabled growth pick-up and rise in employment for such services. We saw tenants gearing up to return to the workspace. However, with the second wave we now expect the return to be delayed at least by a few quarters.

Commercial real estate saw demand softening through FY2021. This is expected to extend further for atleast 2-3 quarters. Growth in demand for technology services has helped earnings of these companies. Also, hiring by these companies has risen during the pandemic and we expect this trajectory to continue in the long-term. NASSCOM research suggests the technology services industry is estimated worth $194 billion in FY21 and has seen net hiring remain robust even during the pandemic. The tech hiring outlook is expected to remain positive in 2021 coupled with growth in global tech spends. Global multi-nationals are increasingly looking at India as an innovation and knowledge centre. Most GCCs and GICs are looking at an increased workforce that is required to deliver the need for services. As the world is moving towards a digital economy Indian IT sector is poised for a robust decade. This is expected to lead to a renewed demand for Grade A office spaces once the normalcy returns.

Globally, the severity of Covid-19 has currently moderated and many economies have started to get back on the path to growth, unemployment levels are tapering, various policy measures taken by the governments of these economies have helped businesses recuperate. We expect this path to recovery to provide opportunities for India to grow and cater to this global pent-up demand.

We see a growing need to return back to offices as soon as the situation improves. Offices continue to be preferred places to work, providing an inclusive environment for employees to ideate, collaborate and optimize output. India's social fabric and the residential infrastructure is under pressure and pose challenges to the long-term sustainability of the work from home as a model.

While we cope with these challenges, we have delivered financial performance in line with our projections. Our operating performance remained stable with collections continuing to be over 99% through the pandemic. We achieved a healthy gross leasing of 1.5 million sq. ft. during this quarter. Our distributions stood at INR 2,852 million and INR 5,687 million during Q4 FY21 and H2 FY21 respectively, in line with our projected distributions. We continue to invest in enhancements of our Parks and maintenance of high standards of health and safety so as to keep our parks ready for our tenants when they return to the workplace.

On the demand side, while capex commitment decisions by tenants have slowed, new supply has also contracted significantly due to uncertainty of demand and limited availability of capital. We expect this to help us gain a healthy share of demand when normalcy returns. While the demand side has seen moderation, rentals in our micro markets continue to remain stable. We continue to see consolidation by tenants in most of the micro markets that we are present in. We are focused on retaining existing footprints of occupancy and working towards bringing back employees to the workspace once the situation improves.

We have evidenced healthy rise in demand for flexi office spaces. Additionally, with the increased internet usage, growing demand for data storage and anticipated data localisation norms, is leading to a surge in demand for data centers. The government's focus on "Digital

India" and the ongoing Covid-19 pandemic have further catalysed the process of digitization. Mumbai stands to benefit due to its geographical and infrastructural advantage. This offers Mindspace REIT the opportunity to diversify its rental portfolio by providing data center spaces to domestic and international operators at its parks.

Reduced interest rates and low gearing of our Portfolio provides us with the room to consider asset enhancements and other growth opportunities at our parks which are long term value accretive to our Unitholders.

I would now like to take you through the specific operational update for the fourth quarter and full financial year 2021

- We achieved a gross leasing of 1.5 million sq. ft. for the quarter ended March 31, 2021. Of this 0.76 million sq. ft. was on account of re-leasing and 0.78 million sq. ft. was new area leasing.
- Average rent realized on this 1.5 million sq. ft. of leasing was INR 73 psfpm with a re-leasing spread of 16.1%
- Leasing for the year stood at 3.5 million sq. ft. of which 2.2 million sq. ft. was on account of re-leasing and 1.3 million sq. ft. was leasing of new area.
- Average rent realized on the 3.5 million sq. ft. of leasing was INR 69 psfpm with a re-leasing spread of 19.1%
- We signed up 8 new tenants during the quarter and 16 new tenants for the FY21. Key tenants added during the year include Princeton Digital, ADP, BP, Mindcrest, Smartworks, AGC and Telstra amongst others.
- We diversified our portfolio mix by entering into an agreement with Princeton Digital Group, one of Asia's leading data center operators to lease approximately 0.63 million sq. ft. state of the art built to suit facility at Mindspace, Airoli West, Mumbai on a long-term basis. This is our first data center and we are building expertise to provide specialized services for data center operators. We shall pursue similar value accretive opportunities to enhance the value of our portfolio. We shall deliver the first building within the next 24 months subject to receipt of required approvals and permissions.
- With the addition of data centre development, our Portfolio size has increased from 29.5 million sq. ft. to 30.2 million sq. ft. As at March 31, 2021, our portfolio had 23.9 million square feet of completed area which constituted ~92.3 % of our portfolio value. 2.1 million sq. ft. is currently under construction and we have another 4.3 million sq. ft. available in the Portfolio for future development. The Portfolio is leased to more than 160 marquee clients with an average in-place rent of INR 55.9 per square foot and a weighted average lease expiry of 6 years.
- Our collections continued to remain robust at more than 99% of the gross contractual rentals during the quarter.

- Our committed occupancy of the portfolio stands at 84.2%. On same store basis, our committed occupancy is 86.8%. Increase in present vacancy is mainly due to expiries / terminations towards the end of this quarter. We are actively pursuing discussions with tenants for lease up of these spaces.
- A building aggregating leasable area of 0.36 million sq. ft. occupied by a single tenant at Mindspace Madhapur, Hyderabad now stands vacant, providing us with an opportunity to evaluate the possibility of redevelopment on this portion to a significantly larger building. This shall help us to offer future consolidation opportunities to existing tenants in the Park with continuity and growth. We are currently assessing this opportunity and shall firm up our decision after complete evaluation and essential permissions.
- We continue to progress with the development of our two under construction projects – one building at Gera Commerzone, Kharadi, Pune and one building at Mindspace Airoli (W), Navi Mumbai, to be completed in a phased manner.
- We have substantially completed the first phase of enhancements of our two largest parks in the Portfolio – Mindspace Madhapur, Hyderabad and Mindspace Airoli (E), Navi Mumbai. We continue to invest in further energizing our parks, providing our tenants with a renewed experience when they return to the workspace.
- It's our constant focus to integrate a sustainable social, environmental and governance practice into all of our developments and operations. The key sustainability initiatives include a constant drive to achieve energy efficiency, improved air quality management, focus on renewable energy, water conservation and recycling measures etc.

During the quarter,

- Our Pune Project Gera Commerzone Kharadi won the "Commercial Project of the year" award by Realty Plus Conclave and Excellence
- We received ISO 45001 certification for our Mindspace Airoli East, Mindspace Airoli West, Mindspace Malad, Mindspace Madhapur & Commerzone Yerwada Parks

During this year, we became the first real estate entity from India to join the EV100 initiative with a target to achieve 100% electric mobility at our parks by 2030.

Given the need of the hour, we are closely working with various NGOs and government organizations to provide the required support in these trying times. We are working with various government organizations for specific projects related to oxygen concentrators, setting up temporary hospital infrastructure for the immediate need of patients and all such related relief measures.

Our strong belief in the power of education to change lives has helped us bring various literacy interventions to children of under-privileged communities. During the year, we partnered with "Room to Read", a literacy initiative and supported "DEEDS" trust reaching out to over 2,500 students.

At this point, I will now hand over to Preeti to walk you through our financial highlights of the quarter and full year.

Preeti Chheda: Thank you Vinod. Good afternoon, everyone.

We are happy to announce our first full year financial results post listing. I would like to reiterate that consolidation of financials of the Asset SPVs with Mindspace REIT has been done effective 1st August, 2020. Condensed Consolidated Full Year FY 2021 numbers therefore reflect 8 months financial performance of the Asset SPVs.

On the financial side, we delivered Net Operating Income (NOI) in line with our projections.

Our revenue from operations for FY 2021 stood at INR 16.3 billion. Revenue from operations for Q4 FY 2021 at INR 4.3 billion was approximately 2.5% higher than Q3 FY 2021, mainly on account of rent commencement for certain new areas, contracted escalations kicking in and re-leasing spread being achieved.

Our NOI for the portfolio for FY 2021 is in line with our projections at INR 13.7 billion, a 12% increase over FY 2020. Our Q4 FY 2021 NOI has been at INR 3.6 billion. We continue to maintain NOI margin at 80% plus.

Gross value of our Portfolio, as valued by the Independent Valuer, stood at INR 246 billion as at March 31, 2021, a 2.5% increase over the value as at September 30, 2020. Our Net Asset Value per unit has increased to INR 345.2 per unit as at March 31, 2021 from INR 338.4 per unit as at September 30, 2020.

We announced our second distribution of approximately INR 2.9 billion i.e. INR 4.81 per unit for the quarter ended March 31, 2021. The distribution comprises approximately 92.3% i.e. INR 4.44 per unit of dividend and approximately 7.7% i.e. INR 0.37 per unit of interest. With this the total distribution for H2 FY21 is approximately INR 5.7 billion i.e. INR 9.59 per unit which translates to an annualized distribution yield of 7.0% on the issue price, in line with our projections.

As Vinod mentioned, during the quarter one of the Asset SPVs entered into an agreement to lease approximately 0.63 million sq. ft. at Mindspace, Airoli West, Mumbai to a data center tenant. To effect this, the Asset SPV has amended the memorandum of understanding which was entered into with K Raheja Corp Pvt. Ltd. (KRCPL) for the proposed transfer of leasehold land admeasuring approximately 16.4 acres to KRCPL. Consequent to the amendment, the area proposed to be transferred to KRCPL under the MOU stands reduced to c.5.7 acres. The Asset SPV proposes to utilize c. 7.4 acres of the retained land for the purpose of development of the data center and the balance land (excluding amenity space), contiguous to the existing development, shall be used for future office development or such other purpose as may be deemed appropriate for the overall development of Mindspace, Airoli West Park. The proposed development of data center is estimated to lead to an incremental valuation of INR 1.24 billion or INR 2.1 per unit as at March 31, 2021.

As regards funding, we achieved substantial reduction of approximately 2% in our funding cost vs. our projected cost of debt for FY 2021. Our current average cost of debt for the Portfolio is approximately 7.1% as at March 31, 2021. During the quarter, we issued Market Linked Debentures of INR 3.75 billion at a coupon of 6.65% and Non-convertible debentures of INR 750 million at a quarterly coupon of c. 6.69%. Approximately 30% of our current outstanding debt is fixed cost debt. We shall pursue further opportunities to convert part of our variable cost debt to fixed cost debt to reduce our overall cost of debt. As stated previously our strategy would be to deploy a combination of short to medium term and long-term debt with different maturities as also a combination of fixed and variable debt.

With the net debt at INR 34 billion, our leverage stands at 14.0 % of the market value of the Portfolio. In addition, we have undrawn committed facilities of INR 6.4 billion. This gives us enough headroom for growth in the portfolio.

As guided during the last earnings call, some of the early termination of leases at our Parks is expected to impact the projected revenues of the current financial year, i.e. FY22. However, a large portion of this impact is expected to be offset by savings in interest cost and other cost optimization measures. Management shall closely monitor the business developments and their possible impact on the financial performance of the Portfolio.

With this, I thank you all for the patient hearing. And I hand over to Vinod to conclude this briefing. Over to you, Vinod.

Vinod Rohira: Thank you, Preeti. While we await moderation of the second wave, we continue to be engaged with our tenants and health and safety is our top priority. With the growth in revenues and employment in the technology services we are well poised to see this translate into demand for Grade A office spaces once normalcy returns. We continue to invest in enhancement of our assets and putting in place robust health and safety measures to keep them future ready. Our business has demonstrated high degree of resilience during this disruption, and we remain confident of the long-term fundamentals of Grade A commercial real estate in India. We shall focus on partnering with the governments and other institutions to provide infrastructure enabling fast track vaccination programs.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Manish Agarwal from JM Financial. Please go ahead.

Manish Agarwal: My first question is pertaining to Hyderabad. You mentioned 0.36 million square feet, one building got vacated. So, you plan to redevelop it. So, what would be the total redevelopment potential going forward and basis which what sort of clientele if you could throw some color on that?

Vinod Rohira: Hi, Manish. So, this was the building that was coming in for its natural expiry. It was occupied by Accenture. We are looking at it as an opportunity because on that piece of independent plot where it currently houses two wings cumulatively about 3.6 lakh square feet. We are exploring possibility of demolishing and rebuilding it and seeing a large potential development opportunity in this block, it's in the large layout, the master plan is already with us, all the infrastructure is already in place. This becomes a very attractive opportunity going forward, so we are exploring it and we will get back soon.

Manish Agarwal: Secondly, on the Madhapur NOI and revenue number, so as per projections, the revenue number is slightly lower, somewhere around 3%, 4%, but NOI is slightly higher. So, what exactly is happening, is there some cost initiative which has been taken and is it sustainable going forward?

Vinod Rohira: Yes, a lot of cost initiatives have taken place as well as we continue to see that giving us the similar benefits going forward.

Preeti Chheda: Manish, just to add what Vinod mentioned, also because of the low physical occupancy at the park, our maintenance expenditure has been lower, that also has helped contributing to the NOI.

Manish Agarwal: So, I think FY'22 maintenance expenditure might be low, but later onwards it might revert to older level, is that the correct assumption?

Vinod Rohira: Then occupancies will also go up, automatically giving you the incremental revenue.

Manish Agarwal: Thirdly, in terms of expiry, you have indicated broadly what are the areas which is getting expired. So, what sort of renewals or re-leasing do we expecting out of the total expiry which is expected to happen in FY'22?

Vinod Rohira: Essentially, if I was to just look at my first two quarters, approximately a million square feet comes for its natural termination. From that 1 million, we have very high visibility of re-leasing almost 800,000 square feet.

Manish Agarwal: Lastly, on the data center front. So, now the transaction between the promoter group and the Mindspace REIT will not happen as per the initial plan. The future land can be used for additional data center. And what would be the rentals which you are charging to this, so how do you arrive at this Rs.2 per unit just to understand the broad math?

Preeti Chheda: Manish, we have retained approximately 11 acres out of the 16.5 acres. Out of the 11 acres, approximately 7 acres is being used for data center the balance we are retaining for future development, we will explore what needs to be done as we go along. Coming back to the 7 acres where we are developing a data center, the valuation of the data center has been done like any other commercial building on a discounted cash flow basis and there is an incremental value of 1.24 billion or Rs. 2 per unit..

Manish Agarwal: Rental would be how much per square feet basis?

Vinod Rohira: Rs.72 a square feet.

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

Karan Khanna: My first question is on Mindspace Madhapur. In the previous call you mentioned that additional supplies are not expected until CY'23. Despite that we have seen increasing vacancies for the asset from 88% in March '21 versus 95% in December '20. So, what would be your thoughts on this increasing vacancy especially in an asset where there is not any upcoming supply until CY'23?

Vinod Rohira: So, we saw close to a million square feet getting vacated in the month of March this year. That was on primarily on account of two clients; one was Accenture and one was IBM. IBM actually moved from a Building into our new asset that we built in the park. And for that building of approximately 380,000 square feet area, we are already on advanced negotiations with another client to lease it out. And the other building which was vacated by Accenture on expiry, we are exploring redevelopment.

Karan Khanna: Second, The Square Nagar Road in Pune, while you have achieved higher than in-place rentals across most of your pre-lease ups, at Square Nagar Road, we have seen that your in-place rentals have declined to 61.3 per square feet from 64.5 per square feet, as the committed occupancy has increased from 79.8% to 100%. So, in that context, and you help us with your thoughts here? And also, if any other micro market is also witnessing downward rental revision?

Vinod Rohira: We missed the second part of your question if you don't mind repeating.

Karan Khanna: So, at Square Nagar Road, I believe the occupancy has increased from 80% to 100%, while your in-place rentals have declined to Rs. 61.3 from Rs. 64.5. So, in that context, can you help us with your thoughts in terms of, are there any other micro markets which are also witnessing any downward rental revision?

Preeti Chheda: So, Karan, before I hand over to Vinod to answer the second part, on the first part in terms of, when you talk about in-place rental, it's only on the existing leases. One tenant had vacated, but we have already signed up an LOI with another tenants. However, your in-place rent factors only the rent which has started coming in. So, that's why the higher rent which has come up after signing the LOI, is not part of the increased rent. On the market, I will request Vinod to comment.

Vinod Rohira: So, besides of this, in any case, if I was to continue to what Preeti said, that space that got vacated by a tenant got occupied by another tenant, and the LOIs are assigned for them to occupy in the next three, four months. Your second part of the question was around, markets in any case have paused for the moment, but we see Pune well poised, especially in the eastern quadrant of Pune, you will see demand spike back. There are large RFPs that had started doing the rounds, and they have paused. We believe those RFPs will be refreshed, maybe in a quarter from today, because you need stability to come back into those markets from a COVID point of view. But otherwise, we had already started seeing RFPs.

Karan Khanna: Sure. And lastly, in terms of the new arrangements, or the new lease that you have been signing, any new terms or clauses that are being inserted, or minimum rent-free period, etc. that's being inserted compared to how these arrangements were structured before COVID?

Vinod Rohira: No, it is similar to whatever we have been signing in the past.

Moderator: Thank you. The next question is from the line of Amit Agarwal from Nirmal Bang. Please go ahead.

Amit Agarwal: Thanks for the opportunity. My question is on Page 18 of the presentation, you have this re-leasing spreads. FY 2018 re-leasing spread was 38% and FY 2021 re-leasing spread is 19%. So, while I understand that 2020 probably towards the end and 2021 got impacted because of COVID, but then I was a bit surprised of the decline in re-leasing spread. So, is there anything to read into it? And if not, what is the reason for the decline in re-leasing spreads?

Preeti Chheda: So, let me answer that. So, also what happens is, as we go along and as the leases come up for renewal, there are certain leases which, as the escalations keep kicking in, the in-place rents also have been higher. And it's also a factor of what leases are coming up for renewal. So, it is not necessary that it's the oldest one, sometimes some of the parts, like for example, if it's a part which is in Pune, then the rentals have been much higher. So, to that extent, the average re-leasing spread has been lower. So, it all depends on which asset has actually come up for renewals. So, I don't think you need to really read anything on the declining trend. This is more to do with which area is actually coming up for re-leasing in each of these years. And some of the re-leases, we have done some of the renewals etc., wherein we have already gotten those MTMs. So, that is the reason, going forward also, you have seen some of these re-leasing spreads normalizing, which otherwise have been higher in the initial years. Because those were the older leases which we signed way back in 2009 and 2010 where the rentals were like really low. The ones which we have been doing, thereafter, obviously, are higher rented as compared to the ones which we did earlier.

Amit Agarwal: Sure. And last question, you have a lot of CAPEX coming up in the next five plus years with the new construction which is happening. Now with 99% payout, am I to understand that there is going to be an increase in debt, which automatically would also mean that NDCF should come down, because you reduce the debt element from NDCF. Am I correct in reading that?

Preeti Chheda: No. So, all the CAPEX which we shall be incurring in the years to come will be funded out of debt. So, to that extent, that doesn't impact your NDCF. NDCF will not be impacted because of this debt.

Amit Agarwal: But I thought, in NDCF, you do minus out debt payments and interest payments on debt before you calculate the net distributable cash flow, am I correct on that?

Preeti Chheda: So, what happens is, most of the debt, even if there is amortizing debt, we generally keep refinancing the debt. So, a lot of debt therefore, in a way, becomes non-amortizing. So, there is not too much of repayments which actually happen out of that. So, therefore, you would not actually see that impacting your NDCF.

Moderator: Thank you. The next question is from the line of Shashank Savla from Somerset Capital Management. Please go ahead.

Shashank Savla: My question was on the re-leasing amount which is there. So, how different is it to the market rents? Like are you able to get the market rents during re-leasing? And linked question to that was, are the face rents holding? And in terms of incentive, is there any change or increase in the incentives you have to provide?

Vinod Rohira: So, we are getting the market rents that are in place, we are not seeing any challenge with rentals, we are getting the escalations that we require or we ask for. But our focus always has primarily been quality of tenant and making sure we handhold and make sure tenants continue and grow with us. So, that's paramount for us. And we were able to get our business at the projected rentals that we had expected.

Shashank Savla: Right. But in terms of incentives, like even if the face rents are holding, is there any change in incentives?

Vinod Rohira: Not really. I mean, you might give them a couple of months more as rent-free for them to do their fit outs in a tight environment like this, but nothing beyond of that.

Shashank Savla: Right. And the NAV has increased, I was just trying to understand the reason why the NAV has increased, is it because of completion of some projects? Because in this environment you would still expect, if I am not mistaken, the NAV includes what future rents you will get on your existing or projects to be completed, so what exactly drives the change in NAV?

Preeti Chheda: Yes. So, there are two reasons, so one, of course, the NAV has seen a rise also because of data center. We did mention that **Rs 2 per unit** have come from our data center. Time value of money also has an impact. There are some of the assets which have got completed, which increases the value of the asset. Before completion, it gets valued as an under-construction project, and once it's completed, it gets valued as fully completed project. So, to that extent, the value increase can be attributable to these buildings also. Some of those positive impacts have also been offset by the longer time which the valuer has assumed to lease some of the leases which are coming up for renewal. So, that negative impact has also been factored in. And that's why you have seen a marginal increase of 2.5%.

Shashank Savla: Right. And then looking at this Mumbai market sort of region in your presentation Page 48, which mentions Thane, Belapur, which basically includes the Airoli East and West, where the vacancy is like about 23%. I just wanted your thoughts like is this actually the vacancy which is a competition for you? Or within that Grade A market, what is the actual level of vacancy in the area you are competing in?

Vinod Rohira: So, essentially two factors to look at, one is, we have brought and forwarded our own supply to bring in more offerings in that micro market, because we believe that micro market has a very strong long-term trajectory for growth. Having said that, a significant component of that was SEZ. And with the SEZ policy rejig taking place right now from the center, we are hopeful that the changes that would be brought about in the SEZ policy to allow far more amount of flexibility in the occupancy of all types of technology companies, that is what we are waiting for, which will give us the boost in demand. So, that's where we are. It may take slightly longer than what we had envisaged, but this is really what our strategy is on New Mumbai and that location.

Shashank Savla: Right. And final question more on strategy. You don't have any presence in Bangalore as such, which is one of the larger office markets in India. So, what are your plans, any future plans for that region?

Vinod Rohira: So, we keep getting asked those questions. And yes, while we have missed out on that opportunity, we were fortunate to be in four of the six primary markets which are relevant for commercial real-estate in India. And we were able to expand our footprint in those markets. Having said that, we are keenly looking to expand our presence in Bangalore, and we will keep looking at value accretive opportunities for Bangalore. And we want to do expand there as and when we find assets that are accretive for our development and our REIT.

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

Kunal Tayal: My first question was on data centers. I think if I heard right, the rentals that you are mentioning is about Rs. 72 a square face. It seems to be a pretty good rate for Airoli West. So, is it fair to conclude that the opportunity in data centers is generally more accretive than offices, or if there are any factor they we should consider? That's one. The second question was, could you sort of talk through what are you seeing on the supply projections for broadly Hyderabad, and also specifically the micro markets that are relevant to you for the upcoming one or two years?

Vinod Rohira: Sure. So, Kunal, thanks for that question. Yes, certainly data centers are more of accretive, but they are very specialized products, where a lot of confidence needs to be demonstrated by the service provider, someone like ourselves, because the participant occupier is making huge among amounts of CAPEX contribution and commitments to an asset like that. And for that they need to be super confident about who is going to build and how they are going to bring in and tie-in all the infrastructure approvals, etc. So, if you are able to get that piece right, you will get premium to market.

To your second question with regard to different micro markets and the supply dynamics there. We continue to see compression of supply in each of those micro markets where we are present in, and we don't see that trajectory changing in a hurry, especially so because of the second wave there's further digit delusion of wanting to put in speculative CAPEX to build commercial real-estate. So, we are seeing thinning out of Grade A supply. We are actually seeing an opportunity, especially in our markets of Pune and Hyderabad, where we believe you can bring in high quality asset introduction into the marketplace, and you will get the large share of demand when demand comes back, because clients are going to be vary of choosing the right Grade A opportunities. And that's where you see your presence being really strong. And where we believe both these markets will continue to have an opportunity for bringing in speculative supply.

Moderator: Thank you. The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: Hope everyone is safe at Mindspace. My first question is that, in the media we see a lot of U.S. companies now talking about resuming work in June, July. I wanted to understand, does that change anything significantly for us? While in India there is still some time for normalcy to return, but are you already seeing in other Indian units talking about return to work, which did not happen when India opened up earlier? So, that's the first part. The second part is, also, are you seeing more RFPs being floated now that the companies in the U.S. are planning to return back to work?

Vinod Rohira: Yes, Mohit. First two months of the year, January, February, we saw all of that exactly like you are mentioning, whether it is the need to get back to the office footprint, the need for new RFPs, new consolidation had just about started to begin. And then unfortunately, we were hit by this hard second wave of COVID, which has paused all of that. I don't see those RFPs going away, I think those RFPs will come back. It's a matter of time when they see stability from a point of view of healthcare measures, health and safety protocols, vaccination drives, etc. When that catches momentum, which we believe will take a quarter, thereafter I think those RFPs will resume. And definitely we are seeing clients' whispers getting louder, that they want to get back to the workspace, because with the need for collaboration and cutting-edge technology introduction in the digital world, they are finding it more and more difficult to manage data security and collaboration from the homes. And if you see, the hiring numbers have been extremely robust in the last quarter, and they will continue. You will see continued strong hiring take place in this quarter and next quarter for technology companies. Eventually, they have to have a footprint to work from.

Mohit Agarwal: Sure. And the second question is on this redevelopment opportunity that we have in Hyderabad. This question was asked earlier, but can you give a sense of how big this opportunity could be in terms of some sense on the numbers? So, let's say earlier you have 1 million square feet of stuff that you can redevelop, how much that turned out to be? Just wanted to understand the potential opportunity that we have.

Vinod Rohira: Sure. So, it's like this. If I was to just give you the broad macro geography map of Hyderabad, in that micro market, on an average, all the newer developments are between five- and six-times density. Our Park has some phases which are one time density, and the other phases are about three times density, on an average we have two times density in our park. So, when we look at our development opportunities like this, we can actually triple the size of the building.

Mohit Agarwal: And this is the entire Madhapur development at two times?

Vinod Rohira: Yes. So, we have opportunities, we want to explore this and make a success of this. Once we are clear about this, then we can look at those opportunities going forward.

Mohit Agarwal: Sure. And the last one from me, so on the data centers how does the pipeline look in FY 2022? This deal that we had just done, is it more like a one-off deal that we have done? Or do you think that this can grow into a sizable vertical going forward?

Vinod Rohira: These are opportunities I think we will keep exploring. We want to test the first one out correctly and it allows for room for more such opportunities in the future.

Mohit Agarwal: So, you will finish this one and then probably you will look into others?

Vinod Rohira: We will constantly be looking at opportunities like this because you must remember, the first whole phase of our park is really low density. And most of those occupies a single occupiers with full, full buildings been occupied by them, which is a huge opportunity because they will exit at one time.

Moderator: Thank you. The next question is from the line of Amit Agarwal from Nirmal Bang. Please go ahead.

Amit Agarwal: A quick housekeeping question. In the valuation reports given by the valuer, I was going through the assumptions, I couldn't find the assumptions for under construction property and the cost of construction per square foot or anything of that kind. So, any idea what would that be? Have you taken the cost of construction in the valuation of under construction properties?

Preeti Chheda: So, Amit, if you look at the report, the independent valuer would have considered the cost to be incurred for the property, because that is what will impact their future cash flows. So, you may not find a per square foot number, but you will find the cost to complete which they would have factored in.

Amit Agarwal: Sure. I will look through that and probably get back to you.

Preeti Chheda: If you are finding it difficult, then Ashay can help you get that.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: So, I had a couple of questions, one is just on this 2.27 of expiries coming up in this year. How confident are you on and is there a certain number which you are fairly confident that you will definitely be able to get re-leased? And what's the quantum of area where you are little unsure of your ability to re-lease? That's question number one. And second is that on how much of the area do you have escalation due in FY 2022? And what are the quantum of the escalation? Thanks.

Vinod Rohira: So, to address the first part of your question, we are looking at two quarters at a time, Chandra. For the first two quarters, approximately 1 million comes in for termination. From that 1 million, we are reasonably confident over at least 800,000 square feet where we have strong visibility of renewal. The second part of your question with reference to what part of escalations etc., 9 million square feet comes in for escalations normal for this year. On an average, cumulatively, the total value of the escalated amount is Rs. 22 crores for the year.

Chandrasekhar Sridhar: Okay, so it's not a meaningful amount, okay.

Vinod Rohira: Exactly.

Chandrasekhar Sridhar: Okay, understood. So, what you are saying is, 1 million is an H1 and 1.27 million in H2. And you give visibility on basically on H1 as of now, you are not sure so much of H2 as of now?

Vinod Rohira: So, 1 million is the terminations that are due for this two quarters. 600,000-odd is for the next two quarters. However, 500,000-odd square feet are early terminations, which we have visibility over that these clients are going to vacate. So, these were not part of the normal terminations,. So, those will take some time to re-lease because we didn't have visibility around those.

Moderator: Thank you. The next question is from the line of Ritwik from OneUp Financial Consultants. Please go ahead.

Ritwik: I have a couple of questions. What would be the timeline for the under-construction projects to get completed, the 2.1 million square feet?

Vinod Rohira: So, the 1.1-odd million will be ready by the end of this financial year, more or less. And the other 700,000-odd square feet of Pune will be ready second quarter calendar 2023, so first quarter financial year 2023.

Ritwik: Okay, sure. And out of this 1.1 million square feet, what amount would be pre-leased?

Vinod Rohira: So, we are looking at a 250,000-odd square feet so far of visibility of leasing of that building. And we were looking at some more which have got paused right now for the moment, but we are confident we will get that demand back in place once things get better.

Ritwik: Okay, sure. So, overall if we see our current operational portfolio, we are about 24 million square feet and out of which we are about 84% occupied. And you mentioned that 360,000 square feet in Hyderabad has been vacated. So, that will definitely not come back this year? And another 5 million square feet has to be re-leased, right?

Vinod Rohira: Yes.

Ritwik: So, ballpark, would it be fair to assume that we could see some occupancy going down further from current levels also, before improving in the second half?

Vinod Rohira: So, we have a lag of about 1 million plus from the previous years, which will follow through for the next financial year, certainly. But the minute you see the trajectory return because we have upgraded and have Grade A assets to offer, and it's 1 million odds in each of those micro markets. We are actually very happy to have that offering available when demand comes back. In that sense, certainly, but with the scale of 30 million, you will see some churns take place, which is normal business. Even if you go four or five years backwards, we used to have that churn, of course, it might take slightly longer to lease that churn now than it used to, but it's part and parcel of the business if you ask me.

Ritwik: Sure, fair enough. And sir, just one last question. On the planned projects, do we assume that post the second wave and also post some normalization of our existing portfolio that we will go and venture out for the planned projects, the 4.4 million square feet that we have?

Vinod Rohira: So, certainly, this is all driven by demand supply dynamics. So, we are constantly reviewing the demand supply dynamics in each micro market. And obviously, we prefer doing opportunistic development where some of it will be speculative to be ahead of this curve in terms of supply. So, we will take our calls driven by how market demand kind of pans out.

Ritwik: But next one year, or at least we will not start to work on any of them, right?

Vinod Rohira: Currently, we will be starting work on the data center building for sure. The other two blocks are under construction. And we will assess the demand in the next two to three quarters and then take the steps from there.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, on behalf of Mindspace Business Parks REIT, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.