“Mindspace Business Parks REIT Third Quarter FY'21 Earnings Conference Call”

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K RAHEJA CORP INVESTMENT MANAGERS LLP, MANAGER

MANAGEMENT: **MR. VINOD ROHIRA – CHIEF EXECUTIVE OFFICER**
MS. PREETI CHHEDA – CHIEF FINANCIAL OFFICER
MR. DEEPAK ASWANI – GENERAL MANAGER, CORPORATE FINANCE & INVESTOR RELATIONS

(This document has been edited for clarity wherever required)

Moderator: Good afternoon Ladies and gentlemen, and welcome to Mindspace Business Parks REIT's Third Quarter FY 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 Deepak Aswani – General Manager, Corporate Finance and Investor Relations. Thank you and over to you, sir.

Deepak Aswani: Thank you and good afternoon, everyone. Welcome to the Third Quarter FY 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 Business Parks 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 Assets SPVs with Mindspace REIT has been done effective 1st August, 2020. Consolidated YTD Q3 FY 2021 numbers therefore reflect 5 months financial performance of the Asset SPVs. However, for comparison purpose, in the investor presentation, we have provided pro-forma Revenue from Operations and Net Operating Income for the nine month period from 01 April 2020 to 31 December 2020.

I would now like to welcome Vinod Rohira, CEO; and Preeti Chheda, our CFO. Vinod will share his views on the macro environment, commercial real-estate in general, and business update. 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, Deepak. Good afternoon, everyone. Thank you for taking time out to join us on this call today. The management team is joining the call from our office, as the country has opened up gradually over the past few months. Social life is moving to the new normal with people back in malls, restaurants and resuming leisure travel. A steady and significant drop in Covid-19 cases and stable ramp-up of the drive towards vaccination is going to play a critical role in quarters to come in bringing workforce back to the offices.

We are seeing new waves of Covid-19 across key geographies leading to disruptions and delay towards stability and the new normal.

We saw some moderation in demand for office space in our micro markets due to the interim deferment of growth and capex decisions by some of our tenants. While the long term fundamentals of Grade A office space remain intact, we expect the leasing pick up to take longer than projected. We continue to focus on health and safety of our tenants and to collaborate with them to ensure their business continuity and stability. We are excited to witness some of our large occupiers indicating gradual ramp-up of return to the workplace. The first phase of our upgrade program to re-energize our parks at Madhapur, Hyderabad and Airoli East, Navi Mumbai has been substantially completed. We expect this to help keep our Parks well poised to offer high quality ready-to-move-in spaces as the demand picks up.

New supply has contracted significantly due to uncertainty of demand and limited availability of capital. Additionally, we are seeing consolidation by tenants in most of the micro markets that we are present in, with focus on retaining existing footprints of occupancy and working towards bringing back employees to the workspace. While the demand side has seen moderation, rentals in our micro markets continue to remain stable.

In Mumbai, we entered into a Letter of Intent with a large MNC to lease ~31,500 square feet space at our CBD asset, The Square BKC. We are in early stage discussions with multiple tenants for the balance space.

At Mindspace Airoli West, we await de-notification of the building currently under construction from the SEZ authorities. We shall complete the construction of this building in a phased manner to match supply with potential demand. Also, we await policy changes to the existing SEZ framework, based on the recommendations of the expert committee set up by Ministry of Commerce and Industry, to study the existing SEZ Policy and prepare a policy framework to adopt strategic measures which will further strengthen India to capitalize on global growth opportunities while developing its own competitive manufacturing and technology services base.

Further in the Mumbai Region, work on various infrastructure initiatives, which would drive seamless connectivity has resumed. The region continues to receive inbound interest for data center opportunities given Mumbai's geographical and infrastructural advantage. We hope to benefit from this demand led by increased internet usage and anticipated data localization norms.

Hyderabad is beginning to see some movement around consolidation RFPs for FY22 and FY23. We expect demand for spaces to gain momentum after the next few quarters.

In Pune, while most of the tenants continue to renew leases, fresh leasing activity is expected to pick up after the next few quarters.

Demand for Grade A office space in Chennai continues to be muted across micro markets.

A tightened liquidity environment with reduced interest rates is expected to provide Grade-A developers and REITs with consolidation and growth opportunity. Low gearing of our Portfolio provides us with headroom to pursue such opportunities that are long term value accretive for our unitholders.

I would now like to take you through the specific operational update for the third quarter of financial year 2021

• As of December 31, 2020, our portfolio had 23.9 million square feet of completed area which constituted ~94% of our portfolio value as at September 2020. The Portfolio is leased to more than 165 marquee clients with an average in-place rent of INR 55.2 per square foot and a weighted average lease expiry of 5.8 years. ~83% of the portfolio is leased to foreign multinationals.

• We achieved a gross leasing of 0.96 million square feet across 16 clients at an average rent of INR 60 per square foot.

• Gross leasing included area re-leased and extensions at a re-leasing spread of 13.3%.

• 92% of our gross leasing was to our existing clients while the balance was to new clients. New clients added to the portfolio include marquee names such as Arcelor Mittal, AGC and Alphasense.

• We continue to collect over 99% of the gross contractual rentals during the period.

• Our committed occupancy of the portfolio stands at 86.9%. On same store basis, our committed occupancy is 89.9%.

• While physical occupancy continues to remain low across the parks, our tenants continue to consume approximately 50% to 60% of their power requirements from these offices to ensure their delivery targets are met.

• We are happy to announce that Gera Commerzone Pune and Mindspace Airoli West were awarded British Safety Council's prestigious "Sword of Honour".

• At this point, I will now turn the call over to Preeti to walk you through our financial highlights of the quarter.

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

We completed the first full quarter post listing and are happy to announce the first distribution of approximately INR 2.8 billion i.e. INR 4.78 per unit for the quarter ended December 31, 2020. We also delivered Net Operating Income (NOI) in line with our projections. We continued to collect over 99% of gross contracted rentals.

Our revenue from operations for YTD Q3 2021 stood at INR 12.0 billion. Revenue from operations for Q3 FY 2021 at INR 4.2 billion was approximately 3.8% higher than Q2 FY 2021, mainly on account of rent commencement for certain areas, contracted escalations kicking in and re-leasing spread being achieved.

Our NOI for the portfolio for YTD Q3 2021 remains in line with our projections at INR 10.2 billion. Our Q3 FY 2021 NOI has been 6.3% higher than our Q2 FY 2021 NOI, largely driven by higher revenue from operations and cost optimization measures. We continue to maintain NOI margin at 80% plus.

We commenced the Facility Management Business under the brand name CAMPLUS, in the portfolio effective October 1, 2020.

As regards funding, we achieved substantial reduction in our funding cost from approximately 9% assumed in the Projections to approximately 7.3% as at December 31, 2020. During the quarter, we issued Non-convertible debentures of INR 2.0 Bn at 6.45% p.a.p.q. We also availed a green loan of INR 5.6 billion. We shall look at similar refinancing opportunities to further optimize our debt cost. As stated previously our strategy would be to deploy a combination of short to medium term debt with different maturities and long term debt.

With the net debt at INR 33 billion, our leverage stands at 13.8% of the market value of the Portfolio. In addition, we have undrawn committed facilities of INR 5.7 billion. This gives us enough headroom for growth in the portfolio.

We are also happy to announce, during the quarter Mindspace REIT was included in MSCI India Domestic Small Cap Index and various other MSCI and FTSE indices.

As Vinod mentioned, this quarter saw some moderation in demand and additional expiries. This is likely to impact the projected revenues of the next financial year, though the impact would be partially 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 Covid has impacted businesses globally, it has also brought about a renewed focus on digitization which has changed the way businesses across the world function. India being an effective provider of these solutions with bandwidth of intellectual capital for technology services, stands to benefit from this. We expect the demand for office space to take a few more quarters before it begins to return. Once the global environment recuperates and office occupancies rise, India's Grade A offices will be the foremost beneficiaries of the demand surge.

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

Karan Khanna: My first question is on the Hyderabad micro market. We've been hearing about a lot of upcoming supply in that market. So how would this impact the Mindspace Pocharam where you have 0.4 mn.sq.ft. of completed assets with a WALE of around two years. And that asset has seen vacancy recently with occupancy at 71.1% versus 92% in the previous quarter.

Vinod Rohira: Hyderabad office market constitutes two distinct micro markets. We are predominantly present in the western quadrant, which is the Madhapur micro market. There you've seen a significant drop in supply and we don't see supply catching up to the volumes envisaged till '23. Hence when the demand returns, vacancies of Grade-A assets will be filled up quickly. Pocharam, located in the eastern quadrant, has always been a low-cost option being offered for occupiers in Hyderabad. It has seen a bit of a hiccup right now, but I think at the cost offering, it will catch up in due course considering the current demand scenario.

Karan Khanna: In the last call, you mentioned about increase in enquiries for the data center demand especially in Mumbai. However, construction of a 1 million square feet of under construction area in Mindspace Airoli West has been delayed, to be completed in a phased manner over FY'22. In that context, we've also seen that vacancies across assets in Mumbai have increased during the quarter. Can you give us some sense on nature of tenants who would have terminated the contracts and any updates in the new signups?

Vinod Rohira: We are waiting for SEZ de-notification of the under-construction asset. We have seen early traction of the BFSI tenants moving to locations where they are closer to large residential catchments. Data centers are a build to suit or a customized opportunity. So those in any case will fit into a different block of construction which is more customized for data centers. We are seeing those opportunities additionally because we have space to build those kinds of assets within our portfolio. On the contract termination, expiries have primarily happened for the leases which were near expiry, we've accordingly seen some compression of that footprint for the short-term. When these clients come back, they will then again sign for long term leases, with lock-ins. Significant number of those occupiers have renewed and we've also realized most of the mark-to-market opportunities due for re-leasing.

Karan Khanna: Given the increased vacancies and delays that we've seen in the fresh lease-ups along with the deferment in your construction timelines, can you give us some sense on what are the expected deviations versus your estimates which you had forecasted during the IPO?

Vinod Rohira: There is an overhang of about a million square feet which we intend to lease over the coming financial year and onwards.

Karan Khanna: But anything in terms of the forecast that you'd given out, on distributions etc.?

Preeti Chheda: The incremental exits which are expected to happen will have an impact on the rentals. But we are also seeing some positives on the distribution front; we've optimized our interest cost by approximately 1.7% versus what we had projected. This is expected to translate to a substantial saving on approximately Rs.37 Bn borrowings at present. In addition, we are also working on various other cost saving initiatives. Both of these put together are expected to partially offset potential rental reduction on account of this expiry.

Vinod Rohira: Incremental expiries shall take longer to lease than what we had expected earlier, so we are preparing ourselves for that.

Moderator: Thank you. The next question is from the line of Manish Agrawal from JM Financial. Please go ahead.

Manish Agrawal: You had mentioned that you would perhaps see some delay in leasing. So perhaps, in the NOI there may be some sort of a miss but we would be able to achieve NDCF because of interest cost benefits, etc., is that right understanding.

Preeti Chheda: I wouldn't say we will be able to fully meet our distribution targets. It is a little premature to say that. I would say substantial variation in distribution is expected to be taken care of by the interest cost savings and other cost measures.

Manish Agrawal: Second question is on the debt front. So I'm looking at slide #27, where you have given the NDCF build up. Over here, the net debt drawdown shows Rs.292 crores. But the net debt seems to be at similar levels at Rs.33 billion. So what are the adjustments which are happening?

Preeti Chheda: Our debt has largely remained at the same level as September '20. The operating cash flow during the quarter was used to pay down the debt. The movement of INR 2,916 million is at the SPV level and it doesn't take into account the cash sitting at the REIT level. Once we shall make the distributions, the debt will rise to that extent.

Manish Agrawal: For ROFO assets at Madhapur, what is the progress, what is the broad construction timeline?

Vinod Rohira: It is on schedule to finish in fiscal year 22.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: First question is what's really causing this delay in the recovery in demand, how is the occupier thinking? No expansion and just consolidation coupled with some travel restrictions?

Vinod Rohira: COVID hitting a second wave in most of America and Europe has paused the decision makers in these geographies. We are seeing early signs of large occupiers starting to speak about getting back to the workplace quickly. I think, by end of March, April, we will be far clearer about how quickly they want to get back to the workspace. So in my view, once that level of stability returns, you will see need for smaller take ups of ready space followed by larger consolidations and future growth opportunity, which you will see probably in the beginning of year 2022 and onwards. But you will start seeing demand come back gradually in two to three quarters. One positive side is most of the clients want to continue their occupancies and they're already in advanced discussions for leases that are going to expire in six to nine months for a longer-term re-contracting.

Sameer Baisiwala: Is my understanding correct that within their businesses, all your large occupiers are doing well and they are actually expanding, the IT services, BFSI, etc., so the health of these occupiers is actually pretty okay?

Vinod Rohira: Absolutely right. Internally, they're seeing stable growth indicators because the demand for those services is rising.

Sameer Baisiwala: Vinod, my next question is based on the expiries that we are seeing in Q4 are pretty substantial and then going into next year, how do you see vacancy trend -- will it first go down before it goes up if you were to take next six months view?

Vinod Rohira: It would be a mix of both. We expect additional vacancy of about a million square feet around 31st of March 2021 which will be leased in the coming year. However, basis the discussions we are having with our occupiers, we are seeing healthy signs of these areas getting leased early. We are focused on engaging with our clients.

Sameer Baisiwala: What sort of footfall we are seeing? I know you mentioned low. But how low currently?

Vinod Rohira: 10%.

Sameer Baisiwala: And versus that you said the power consumption is 50% to 60%.

Vinod Rohira: That's been the same for the last 12-months because the gateway of all of their data is actually through their offices. They are consuming power and the services in terms of the connectivity which is actually flowing through there.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: The first question is what is the CAPEX incurred for the nine months? The second question now in terms of the trends, we had earlier moved to a 5% sort of annual escalation, so in all the new contracts, whatever leases are expiring or what is coming up for renewal, are you sticking to the 15% every 36 months or is there some change in the contract, are they looking for some longer entry periods or what is the trend overall?

Vinod Rohira: The escalations continue to be either 4.5% to 5% annually or 15% every three years.

A Chattopadhyay: On this early expiry, do you anticipate any more such early expiries coming in with the portfolio for next year based on discussions you have with tenants or is this more or less done for this year?

Vinod Rohira: I think most of it is taken care of. You will continue to see some movement depending on how businesses react to the current situation. But otherwise, I don't see any dramatic change from the trajectory that you're seeing this year.

Preeti Chheda: CAPEX for the nine months was approximately Rs.400 crores.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: So just to understand it clearly, you said that the footfall in offices is about 10% of the usual level. Is that right understanding?

Vinod Rohira: That's right.

Atul Tiwari: Just to get some more color on this early expiry. So what happens exactly, so if the client expresses a desire to break off, do you get to retain the deposit, etc., or is there some kind of penalty associated with that, how does it work?

Vinod Rohira: No, unless there are clients that are walking away within the lock-in term, which we haven't seen at all, they need to serve the notice period. They pay you the rent for the notice period, and then they exit.

Atul Tiwari: So there is no forfeiture of deposits or anything?

Vinod Rohira: No.

Atul Tiwari: Over the past two quarters, the re-leasing spreads have come down for the new leasing you are signing. Has it got something to do with the market rentals coming down because of COVID or is it a mix issue?

Preeti Chheda: Atul, that's not the case. During the first half, we had re-leased the spaces at INR 70 per square feet. So of course, it depends on which micro market the maximum leasing has happened. This time the average rent that we've achieved is about INR 60 per square feet. The market rents have been in line with the expectations. If we look at our rentals per square foot, it has moved from INR 52 per square feet to INR 54 per square feet and now to INR 55. So to that extent, we've been realizing those re-leasing spreads also as we are going along.

Atul Tiwari: So more of a mix issue?

Preeti Chheda: Yes.

Atul Tiwari: But any commentary on the market rentals because of COVID, I mean, is it a stable or down marginally according to you?

Vinod Rohira: In the markets that we operate, whatever were the projected rents, we are pretty much in that band, and we're able to get those rents.

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

Kunal Tayal: Vinod, I just want to go back to your point on early expiries. Are you saying that customers are temporarily reducing their footprints and are not moving away to a different office space?

Vinod Rohira: Yes, it's broadly that.

Kunal Tayal: The second one is around the WALE of your new leases. It seems to be about 10 years, so higher than typical. Is it just nature of services for the new contracts or is there a tendency on part of customers that a good deal is available, so might as well lock in for a longer duration?

Vinod Rohira: Essentially, it's more about capturing and retaining and nurturing talent and spending monies to create an experiential workspace as the quality of services offered is moving upwards. So, you are looking at 10 and 15 years now in terms of contracts as opposed to short term contracts.

Kunal Tayal: So it seems like this is pretty much a trend that could sustain into the next few quarters as well?

Vinod Rohira: Yes.

Moderator: Thank you. The next question is from Vishwanathan, who's an individual investor. Please go ahead.

Vishwanathan: Congrats for a good set of results. On the distribution front, you have said the distribution will be INR 4.78 per unit. What is the breakup of that between interest and dividend? And you also said that the dividend is tax exempt in the hands of the unit holders, under which section of the Income Tax Act are you claiming this exemption? I would just like to get enlightened. Thank you.

Preeti Chheda: Sure. So the mix of the 4.78 per unit is, 4.25 dividend and balance is interest, this translates to 89% dividend and 11% interest. 10(23FC) is the section of the Income Tax Act under which you can claim that exemption.

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

Shashank Savla: I had a couple of questions. The first was in terms of the incentive, do you offer any incentives to new contracts? Or what level would they be on?

Vinod Rohira: They have been very similar to what we have always been doing traditionally. If you will see, over 90% of our gross leasing in this quarter has been to existing tenants that have renewed and we have added new marque tenants as well. The trajectory remains the same, there are no additional frills, so to speak.

Shashank Savla: Okay. I am just thinking is there a particular number, because if I compare, let's say to Australian REITs or something generally, the incentives are around 13%, 15% and higher now due to COVID. So have you seen any increase in incentive levels or just trying to understand what the level of incentives would be, is it 5% 10%, what level is it?

Vinod Rohira: Incentives to the clients, if I got your question, right?

Shashank Savla: Yes. So at the beginning of the contract, any incentives given to help them sort of settle in, like a few months of rent or something?

Vinod Rohira: So, generally what we do is we give clients a rent-free period for them to fit out and commence operations.

Shashank Savla: Right. And what is that typical rent-free period?

Vinod Rohira: That ranges from three months to six months, depending on size, client and location, etc.

Shashank Savla: Okay. And have you been able to maintain that or have you had to increase any of that rent free period?

Vinod Rohira: Except customers who had commenced fit out during COVID and were not able to continue, at that point in time, we were a bit flexible with our occupiers. Otherwise, there is no such change.

Shashank Savla: Okay. The second one was on, just looking at Mumbai slide where you have had vacancy rates ranging between 18% and 22%. How does that impact the leasing profile for your office or upcoming construction?

Vinod Rohira: So actually, that is the SEZ portion of our Navi Mumbai development and we are eagerly awaiting the next steps that the Government is chalking out for SEZs going forward, and we believe that will make a big difference to the way and pattern of clients that will occupy these parks.

Shashank Savla: Right. But am I correct to understand that, of the grade A overall market space, around 20% is still vacant in Mumbai?

Vinod Rohira: No, it really depends. Mumbai as a region has got very different micro markets, you have a BKC market at Rs. 300, you have got Navi Mumbai markets between Rs. 50 and Rs. 60, you have got the Parel market which is Rs. 150, Rs. 175, you have different other markets such as Worli, Nariman Point and Malad etc. All of these are very different markets which cannot be bundled together. The vacancies are scattered around different locations.

Shashank Savla: I am just looking at your Slide 33 on your presentation pack, where you have mentioned that for 2020 vacancy rates have gone up in Thane Belapur, for example, from 15% to 23%.

Vinod Rohira: So essentially, Thane Belapur area in the Airoli quadrant, predominantly we have the supply. There is one new building that has brought in supply right now, which was 1.1 million. So that's just getting completed or just actually got completed, which has ballooned up the supply there, that's in the Juinagar area.

Shashank Savla: So typically for your under-construction projects, how much is pre-leased before it can be occupied?

Vinod Rohira: So generally, if the building sizes are larger, you would see a 30%-35% occupancy before completion, and then you will see scale up and ramp up in terms of occupancy thereafter.

Shashank Savla: Right. Okay. And then final question, given the same store committed occupancy levels have come down from 95% in the previous quarter to 90% now, it's sort of a choice between getting a higher occupancy or reducing your rentals a little bit. So how do you see that next, and then if given a chance, what would you be doing, like trying to reduce the vacancy rates or trying to keep your rent stable and then not mind keeping it vacant for some time?

Vinod Rohira: For us, the quality of tenants is very important. And once we are comfortable with the quality of our tenants, we are flexible, because we want to grow with those tenants. Having said that, at Rs. 50 and Rs. 60 rents, it is less than 2% of their operating costs. So they are not going to take space just because there is a rent difference of Rs. 3 or Rs. 4 or Rs. 5. They are looking at the quality of the asset and other enablers for their businesses. And if you are right up there in the quality and relationship and the asset management platform, you will see clients choose you versus anything else because they don't want to compromise on Grade A. So it's not really a rent call at all, it's about the business where it wants to be and how it wants to grow. And we are always there aligned to support because we are always aligned to growth.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: I am on Slide #27, which takes us from EBITDA to NDCF. So, just a couple of questions over here. What is the negative Rs 46 crores of working capital changes? That's number one. And are there any one-offs in this flow through?

Preeti Chheda: Yes. Sameer, in this Rs. 46 crores, a substantial amount is fit out, which we do for tenants. So ideally, we consider that as CAPEX, but from accounting representation perspective, it's getting clubbed under working capital changes. So that's a substantial portion. And then besides that, you have your routine things like your prepaid expenses and your normal creditors. So but substantial portion of this is fit out. And there are no one-offs here.

Sameer Baisiwala: Okay, great. And second question here is, how should we think about the net debt? I mean, should this not be more or less matching with the CAPEX in this quarter as much as many quarters going forward?

Preeti Chheda: No, I didn't get your question. So what do you mean by should it not match the CAPEX?

Sameer Baisiwala: See, the net debt that we have taken, inflow is Rs. 290 crores and the CAPEX is Rs. 175 crores. So we are almost getting a helping hand, if that is a good word to use, about Rs. 115 crores from debt to fund the NDCF. So, just what's the framework of net debt as we go forward?

Preeti Chheda: So Sameer, looking at just SPVs, will give you a part picture because we also have approximately Rs. 300 crores of cash which is sitting at the REIT levels. So if you look at the overall movement in the debt, there has been no significant movement in the debt since September. So essentially, if I were to give you a broad picture, all the operating cash flows that we generated, were predominantly used to pay down the debt, and to fund the CAPEX. So, as such, we have not had any incremental debt. Now for the distributions which have been declared, currently, no cash has been paid out to the unit holders. The distribution is going to happen after in the next two weeks. So that's when you will actually see the debt go up. We expect to have about Rs. 300 crores increase in debt over the next quarter. So that should approximately, I would say, take the net debt to Rs. 3,600 crores by the end of this financial year.

Sameer Baisiwala: Okay. And if going forward we are going to have more exits and less new leasing, so when tenants exit, I presume you would be paying them back their deposits. So will that be a meaningful outflow with no matching inflow, that is three months, six months, and therefore pressure on NDCF?

Preeti Chheda: So Sameer, because of the exits which have happened, and also some of the RCD dates which have got pushed, there is definitely going to be a reduction in the revenue from operations versus what we had projected. But from a distribution perspective, a substantial portion of that reduction will be offset by the interest cost savings, and by some of the cost optimization measures. But yes, both revenue reduction as well as a security deposit reduction will have a bearing on the cash flows. This is an interim thing, because as you will keep leasing them you will again start getting back your security deposit and our rentals also will go up.

Sameer Baisiwala: Okay, that's fine. And the other question is on the Hyderabad ROFO asset. I think it is, if I am not wrong, about 1.8 million square feet, and I think your presentation says it will get completed by the end of fiscal 2022, so just for 12 months from now. So not too far. So, a couple of questions. First, are there any pre-leases / pre-commitments over there? And second, is it a given that we will be acquiring this asset?

Vinod Rohira: We are quite confident about this asset, Sameer. And we are quite excited that it is getting ready on time, when there is no real supply coming in Hyderabad, as was envisaged. So we are actually excited to complete this really quickly. And we believe we should be able to lease these assets.

Sameer Baisiwala: Okay, this is very helpful, Vinod. And one final question, if I may. In last call, all through 2020 it was more of an intellectual or academic discussion of work from home and de-densification and stuff like that. But today, I guess, you must have had many rounds of discussions with the occupiers. So what's your assessment, Vinod, that going forward in a mid-term, would many of these employees be sitting and working from home? Is that the way you know the managements are thinking? And are you seeing anything very concrete in terms of de-densification or that's not quite the case?

Vinod Rohira: So while when we move on the streets, we have seen everything is open and everything is occupied. So leaving aside the office space, especially in the technology space, offices for domestic businesses to MSMEs are open. You are seeing people visiting malls and restaurants, you are seeing all the other spaces being occupied. So it's a matter of time where you will see a series of ramp ups of workspace occupancy. I think, in the next few quarters you will see that go up. We are already hearing clients say that we want to get back to the office in a structured manner. They are already having advanced discussions with us around that. So you will see early movers and then you will see followers. So that's happening, it's started.

Sameer Baisiwala: Okay. I get that, but they may get 80 people of 100, and that would still be a large number, 15, 20 they may permanently be working from home. Are you seeing any of that kind of a collateral damage as you go forward?

Vinod Rohira: So today, it's all about health and safety, and till we are uncertain about the way the vaccine pans out and how COVID tapers down in India, etc., hopefully in the next few quarters we will have more stability around that assumption. The minute that happens, it's not about a permanency of people being kept out at working from home, it's more to do with health and safety. The minute the health and safety aspects are covered, you will not want to keep some part of your employees outside, and you may restructure to have different offices at different places. But otherwise, you are not going to really force people to sit at home and work. You may bring in some flexibilities, but your de-densification story is going to pan out where you will move from the high dense offices to a slightly lower dense office environment. So it will more than compensate for that, we don't see that as a challenge at all. When growth really starts to return back, you will have to get into an organized workplace, and that's the trend we are seeing from clients. And if that happens, then by default, you will start filling up the spaces. So there are a few new clients that we have signed up in recent quarters who are still doing between a 90 and 100 square foot density. So they know the new normal will come back to somewhere close to the old normal, there's no significant difference there. And they are fitting out in that pace. We have signed a few new clients and they are filling it up similar at similar densities. It's moved from an 80 to 100 to 110 for sure. But it's not 200 and 300 square feet worth of space, so they know they are going to come back to the workplace.

Moderator: Thank you. The next question is from Vishal Khandelwal from Bajaj Allianz. Please go ahead.

Vishal Khandelwal: So, my question is also with respect to the lease expiry profile that you have given on Slide #15. So just correct me if my understanding is right, what you are saying is that 1.6 million square feet is the additional area that has become vacant due to early termination, is my understanding correct? And that too, this has happened only in this year?

Preeti Chheda: So, the 1.6 million square feet is not vacated, not all of that has got vacated yet, because some of it is also going to happen in this quarter. So 1.8 million square feet is what we had put up in our offer documents, and 1.6 million square feet are the additional expiries which have happened over and above what we had projected at the time of offer documents. So 1.6 million square feet is what we will end up the year with, but not necessarily as of today all the 1.6 million square feet has vacated.

Vinod Rohira: 1 million square feet is vacating on 31st of March or thereabouts.

Vishal Khandelwal: So, this 1.6 million square feet of additional expiries is a sustained guidance for the entire FY 2021?

Preeti Chheda: That’s true.

Vishal Khandelwal: Okay. And so I am just trying to understand this chart. So, with negative of 0.02 million square feet and a negative of 0.2 million square feet that you have mentioned for FY 2022 and FY 2023, since you mentioned these as negative, should I assume that these are extension of the leases that are going to happen?

Preeti Chheda: So, what has actually happened is, some of the leases which we have projected would expire in FY 2022, 2023, have got preponed. So they have moved from FY 2023 to FY 2021. So, they have got into the 1.6 million square feet which you see on top of FY 2021.

Vishal Khandelwal: Okay, understood. So one more question, since 1.6 million square feet is a little on the higher side, can you give some idea about who are the tenants, as in these tenants are from which sector? And they were occupants in which of the properties? So which market has particularly seen these kinds of early termination?

Vinod Rohira: So this is between Mumbai and Hyderabad. They are uniform, similar tenants in both places, in BFSI. Having said that, for example, in Hyderabad, because our densities were really low, and these were single occupier buildings, we are actually seeing an opportunity going forward to evaluate those assets, which we can easily densify, because we are in a gated community where we are in a controlled environment, and we control the development. So we are actually seeing that as a positive for us, because most of our early occupants were large footprint single occupiers of smaller buildings on a large footprint of land, which kind of comes out as an opportunity.

Vishal Khandelwal: Okay. So I know these are uncertain times because of COVID, but still, can you give some guidance on whether there is a likelihood of seeing a similar kind of termination in FY 2022 also? As in, some guidance on that?

Vinod Rohira: We can't give any forward-guidance in that sense. But we are seeing businesses coming back to stability quickly from a services provision point of view. We are seeing a lot of the re-leasing that has already taken place, which has a layer of leases that were going to expire in 2021 and 2022. These leases were pre-leased in 2020. Tenants want to re-sign for 10 years with five-year lock-ins, even though they have one or two more years of leasing left. And in some cases, they want to take up contiguous area which is coming up as vacant, as well and support their growth. So there is mixed bag of stories, we are seeing some of them who really want to stay there and grow. So we are not really worried in that sense, because if the asset quality is right, and you are in the right quadrant and you have spent money and time on upgrading and creating an environment for the workspace, the minute demand comes back it won't come for an under construction asset getting completed two years later, it will come for completed space. We have seen that during the financial crisis. Fortunately, we have those spaces ready and available, and in a lot of cases, fitted out spaces which the earlier client has left behind. So all we do is marginally retrofit, and we can offer a fully furnished experience to the occupier at prices that can be reasonable for them. It's a win-win for both. So we are seeing that as an opportunity. While we know demand for few quarters is going to be choppy, because new demand is going to take time to come back due to the second wave of COVID. But you will see that our ready, quality spaces may get absorbed quickly.

Vishal Khandelwal: Understood. And just one last question, you mentioned about the savings in interest cost. I remember you mentioned the number also, as in what percentage in terms of the cost got reduced, can you just repeat that for me, as in the cost of debt earlier versus the cost of debt now.

Preeti Chheda: Sure. So we had projected approximately 9% in our offer document when we did our projections. As against that, as of December 2020, we are already at 7.3%, with almost 1.7% reduction in our cost.

Moderator: Thank you. The next question is from the line of Sumit Kumar from MAX Life. Please go ahead.

Sumit Kumar: My first question is on the early expiries. Could you help me with the nature of these early expiries, is its partial surrender of spaces or more the client completely moving away from the asset?

Vinod Rohira: In most cases it is just partial surrender of space.

Sumit Kumar: Okay. So, the next question would be on the payouts, the distribution with cash flows, given that there have been some expiries and you have to refund the security deposit, so are we still maintaining the FY 2022 distribution guidance as of what was there in the listing document?

Preeti Chheda: We may not be able to meet our distribution guidance for FY 2022, which was projected because of these expiries and also deferrals of some rents start. But as I mentioned earlier in this call, a part of that reduction in revenue, should be offset by the interest cost saving and other cost optimization measures that we are already undertaking.

Sumit Kumar: Sure, understood. One last question is, what is the total area that is up for leasing across the portfolio? Taking into account those new completions, the already vacant area and the early expiries. Or you can point it out if this figure is there in the presentation.

Vinod Rohira: We have about 3.3 million square feet odd carry forward vacancies we see next year. And we have approximately 1 million square feet under construction, which we will infuse into the portfolio.

Preeti Chheda: And of course, we have the re-leasing also.

Vinod Rohira: Yes, and we are in advanced discussions with clients for that and it also comes with a re-leasing spread.

Sumit Kumar: So would it be safe to assume that you have around 4 million square feet of space that you have to lease?

Vinod Rohira: Yes.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: A follow-up to the previous question, these early exits which are, as you said partial exits, then would these be very difficult to fill up? Because these will be small spaces, which a new tenant might not be able to afford or might not be inclined to take up, and we would be kind of dependent on existing tenants to expand the portfolio.

Vinod Rohira: No, actually not. Because we have been fortunate that for some of these exits, we have accommodated these tenants into newer buildings within our parks, with the idea of being able to retrofit those assets to give it to independent occupiers. If you want 400,000 square foot independent buildings in Hyderabad, it is very difficult to get suddenly, because of the densities that you have built in the Madhapur area. So a client is very happy if he gets that kind of density in a gated community. So we see that as an opportunity going forward. And like I also mentioned that because these are single occupiers in most of these smaller size buildings, we are seeing that as an opportunity to look at redevelopment and enhance our future supply in these parks where our densities are really low and we are right in the middle of the CBD of Hyderabad. This is a good opportunity we want to evaluate. So it is a combination of both these things.

Swagato Ghosh: Got it. These existing tenants who have given up the partial space, so then it's kind of signals that they are not really like consolidating or moving out, but rather just cutting down on the requirement of space, is that a fair reading?

Vinod Rohira: Yes, absolutely. So what happens is, when you don't have a long-term mandate and you have been told to freeze your cost, then by default you will take these measures. And you will then come back when growth comes back and you will say I am within the park; can you give me more space? We have seen that happen in the past where some surrendered early and then six months, nine months after stability returned, they quickly came back. And we have seen that happen in the past, I think the same trajectory is going to happen again.

Swagato Ghosh: Yes. But I am wondering and trying to get your view that then the option might not be available. So are these guys actually being flexible or they have that kind of factored in that when they actually come back the space might not be available, and they would be fine in operating with what they have currently? So I am just trying to think if this is a long-term thinking and not really a short-term thinking from their perspective.

Vinod Rohira: Absolutely. So there are different clients who are probably having a different plan of action for themselves. There are some who have taken the contiguous spaces that someone else left out immediately and said, we need growth right now for trajectory. And there are some that said, we will come back to you when we need it, right now we have been asked to shrink the footprint. And that's the mandate we have got.

Moderator: Thank you. Next question is from the line of Khyati from Tata AIG. Please go ahead.

Khyati: My question was as follows. The INR 4.78 per unit distribution which is announced, is it for three months? And if yes, then what about the cash accrual of the earlier one and a half to two months?

Preeti Chheda: Yes, Khyati. So this is for the quarter, and all the cash approvals which have happened earlier have been used to pay down the debt.

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

Kunal Tayal: Just one quick follow-up from my side. Vinod, I think you were mentioning earlier that some of the large tenants need to make a quick return to office. Are they talking about a timeframe under which they plan to do so? Or are they pegging it to some sort of a vaccination level getting achieved in the population?

Vinod Rohira: No. So I mean, we haven't engaged with them on their vaccination strategy, etc. But some of them are quite clear, by March they want to do 20% and then by June they want to be 40%.

Kunal Tayal: Is this for this financial year?

Vinod Rohira: Yes. Absolutely.

Moderator: Thank you. The next question is from some the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Vinod, just your comment you mentioned in Hyderabad, for a single occupier building you would be looking to densify, it's an opportunity. I mean, are you talking about taking it down and rebuilding it?

Vinod Rohira: Yes. We see that as a very good opportunity.

Preeti Chheda: Sameer, we are still evaluating to see how exactly we can create value out of this opportunity.

Sameer Baisiwala: Okay. And I presume it's a sizable number over here?

Vinod Rohira: We are still working on it, so we can't mention much, but yes.

Sameer Baisiwala: Okay, excellent. And I guess it's not a good time to ask, but any thoughts on the brownfield expansion in Airoli East?

Vinod Rohira: Like I mentioned earlier, we are looking at certain data center occupiers looking at these spaces actively. If we are able to convert these into transactions, then we will definitely see some activity there happen, because we are seeing quite a lot of interest for data center occupiers for that micro market.

Sameer Baisiwala: And that is for East and not for West?

Vinod Rohira: East and West, both.

Moderator: Thank you. That was the last question in queue. As there are no further questions, on behalf of Mindspace Business Parks REIT, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.