"Brookfield India Real Estate Trust Q4 FY23 Earnings Conference Call"

May 19, 2023

MANAGEMENT:	**MR. ANKUR GUPTA – MANAGING PARTNER, BROOKFIELD ASSET MANAGEMENT & DIRECTOR, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. ALOK AGGARWAL – CHIEF EXECUTIVE OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. SANJEEV KUMAR SHARMA – CHIEF FINANCIAL OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. PAWAN KAKUMANU – SENIOR VICE PRESIDENT (STRATEGIC FINANCE)** **MR. RACHIT KOTHARI – BROOKFIELD ASSET MANAGEMENT** **MR. SHAILENDRA SABHNANI – BROOKFIELD ASSET MANAGEMENT**

Moderator: Ladies and gentlemen, good day, and welcome to Brookfield India Real Estate Trust Earnings Call for Q4 FY '23.

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

On the call, we have the following persons:

Mr. Ankur Gupta -- Managing Partner, Brookfield Asset Management and Director, Brookprop Management Services Private Limited; Mr. Alok Aggarwal – Chief Executive Officer, Brookprop Management Services Private Limited; Mr. Sanjeev Kumar Sharma – Chief Financial Officer, Brookprop Management Services Private Limited; And Mr. Pawan Kakumanu – Senior Vice President (Strategic Finance) and Mr. Shailendra Sabhnani from Brookfield.

I now hand the conference over to Mr. Rachit Kothari. Thank you and over to you, sir.

Rachit Kothari: Thank you. Good afternoon everyone and welcome to the call. We are pleased to report to you Q4 and full year results for Financial Year 2023.

I would start by saying that this has been a transformative quarter for our REIT. On the one hand we have made significant operating leaps on our existing portfolio and on the other secured a large Rs. 11,200 crore acquisition which will completely change the scale, diversity and the operating outlook of our business.

In that breath, a couple of things to cover at the beginning:

- Firstly, great operating progress at two of our assets. Our early renewal of 900,000 square feet of space in Kensington with TCS secures over Rs. 100 crores or 10% of portfolios operating income every year for the next 15 years with a 5-year lock-in.
- Our asset N1 in Noida has also touched 96% occupancy with very limited lease up left. Trends in both these properties are great testaments to the confidence that our occupiers continue to show in us. We expect the other three assets to follow similar trends as return-to-work progresses and clarity on SEZ reforms comes through.
- We are also very pleased to announce, with the approval of our Independent Board Members, a transaction that is transformational to the inorganic growth

story of our REIT and a big validation of Brookfield's commitment towards growing this vehicle. We have signed binding agreements to acquire Candor TechSpace G1 and Downtown Powai. These assets were on our pipeline for the last 12 months or so. A very high quality, irreplaceable portfolio of 6.5 million square feet. The deal is in an equal partnership with GIC, the sovereign wealth fund of Singapore, one of the largest investors in Indian Real Estate and is on the exact same terms, but majority of board seats and management will continue to stay with the Brookfield India REIT. GIC has committed approximately Rs. 3,300 crore towards these transactions and the REIT will look to raise a similar amount post the unit holder vote to conclude the transaction. The deal is priced to an Rs. 11,225 crore enterprise value, which implies a 6% discount to GAV and a 12% discount to our estimate of NAV based on the independent valuations. These properties have an income potential of over Rs. 900 crores, which implies an 8.1% cap rate and a 4% to 5% DPU accretion. This deal will also take our consolidated assets to over Rs. 28,000 crores, making us the second largest REIT in the country, putting us on the path to be the largest as we add more assets and new cities.

I will now request Alok to walk through the business updates.

Alok Aggarwal: Thank you, Rachit. A very good afternoon to everyone.

I am pleased to announce that we have had another strong Financial Year and have delivered on our stated objectives for the year. With the announcement of a distribution of Rs. 5.00 per unit this quarter, we have met our NDCF guidance and have announced distribution of Rs. 20.20 per unit for FY 23. We have displayed strong organic growth during the year with our contracted NOI run rate crossing Rs. 1,000 crores, growing almost 15% from the run rate in Q4 last year.

We are also delivering on our inorganic growth strategy and are excited to announce the proposed acquisition of 6.5 million square feet of Grade-A commercial office real estate in Mumbai and in Gurugram. We will acquire Downtown Powai and Candor TechSpace G1 for total consideration of Rs. 11,225 crores. The acquisition will be carried out through a unique 50:50 partnership with GIC, a renowned global institutional investor.

GIC is one of the largest foreign investors in India Real Estate and has a 25+ years of investment track record in India. Equal partnership between Brookfield REIT and GIC for the acquisition of Downtown Powai and G1 will be extremely beneficial for both parties with strong alignment of interests towards value creation.

Under the management of our sponsor, Brookfield Group, both Downtown Powai and G1 have been established as dominant assets in their respective micro markets. These assets are highly complementary to our REIT and are being acquired at a discount of 5.8% to the average fair value assessed by two independent valuers. Axis Capital has provided a fairness opinion on the acquisition price of Rs. 11,225 crores.

These acquisitions will significantly increase the scale of the REIT, with the operating area increasing by 44% and the consolidated gross asset value by 73%. The top 5 tenant consideration will reduce from 52% to 32%, with prominent BFSI tenants such as Deloitte, JP Morgan and Nomura being added to our top 10 roster.

This transaction will significantly improve our geographical diversification, with Mumbai share of our GAV increasing to 33%. These acquisitions will enhance the proforma Effective Occupancy by approximately 200 basis points to 91%. We anticipate a 4.5% increase in NDCF per unit as a result of these acquisitions.

We proposed to fund this transaction through our institutional placement of up to Rs. 3,500 crores and have taken board approval for the same. This institutional placement will significantly enhance the free float of the REIT units and diversify our investor base.

With the COVID-led disruption largely behind us, we are seeing an upsurge in the return-to-office trend, with strong month-on-month growth in footfalls at our assets. This trend, coupled with the quality of the assets, has resulted in us achieving a gross leasing of 2.1 million square feet in FY23, which is approximately 1.8x of our historical leasing average. We have additionally assigned 0.4 million square foot of expansion options during the financial year.

We are delighted to announce the renewal of 0.9 million square feet with TCS at Kensington at a renewal spread of approximately 35% signed during the quarter. The renewal would take place in 2 phases and will significantly de-risk our income profile. The weighted average lease expiry of the overall portfolio has improved from 6.8 years to 7.9 years and the expiry due till FY26 have reduced from 32% to 22%.

During the Financial Year, we signed deals with marquee tenants at all our assets such as Aristocrat at N2, Accenture at G2, Baker Hughes at Kensington. L&T Mindtree at N1 and Capgemini at K1. We renewed space with TCS at Kensington, British Telecom at G2, Mercer at N2 and Genpact at K1. The leasing success that we have seen during the year, coupled with our robust leasing pipeline of 1.1 million square feet, gives us confidence that FY24 will be a strong year.

Our Effective Economic Occupancy has improved to 89%, with our total leased area at 12 million square feet. Our existing leases have delivered a robust embedded growth with the 11% average escalation on 4.1 million square feet during the year.

ESG continues to be a key component of our overall strategy and we continue to fervently work towards the sustainable future with our target to achieve Net Zero by 2040. We have signed a power purchase agreement through the IEX Platform to procure renewable energy up to 60% of the energy requirement at our assets in Noida. This will potentially reduce our Greenhouse Gas Emissions by 7.5% for the Noida assets. We are also working on a long-term solution for the procurement of renewable energy for the REIT entities and a third-party open access agreement which will potentially reduce our Greenhouse Gas Emissions by 48%. We continue to take incremental measures to ensure that our assets are efficient, resilient and future ready.

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

Sanjeev Kumar Sharma: Thanks, Alok. Good afternoon, everyone.

I am pleased to announce that we have achieved an NDCF of Rs. 167 crores or Rs. 4.99 per unit in Quarter 4 of Financial Year 2023 and were able to deliver on our guidance. For 12 months of Financial Year 2023, we have achieved an NDCF of Rs. 679 crores or Rs. 20.25 per unit.

The Board has approved the distribution of Rs. 168 crores or Rs. 5.00 per unit this quarter. We have achieved a near 100% distribution of Rs. 677 crores or Rs. 20.20 per unit for the full Financial Year 2023. The final version of the budget clarified the issue on the taxation of a component of distribution which is in line with our expectation. Further, as commercial office business parks pick up, REITs are well-positioned to provide capital appreciation from the underlying business in addition to distribution yields.

We have witnessed a growth of 14% in our operating lease rentals to Rs. 211 crores as compared to the same period last year. The adjusted NOI for this quarter, including income support from the Sponsor Group, also witnessed a stellar growth of 15% to Rs. 244 crores compared to Quarter 4 of Financial Year 2022.

The addition of Candor TechSpace N2 into the portfolio and a significant improvement in our CAM margins over Financial Year 2022 lifted our operating lease rentals by 28% to Rs. 827 crores and adjusted NOI by 38% to Rs. 961 crores over the same period last year. We have witnessed an expansion in our NOI to OLR ratio by 4% to 107% in Quarter 4 of Financial Year 2023 as compared to the same period last year. The improvement in our CAM margins was driven primarily by some of the occupiers moving to higher hours of operation and because of the higher physical attendance we have seen at our assets.

Our robust balance sheet with a 32% loan-to-value ratio has enabled us to see a limited increase in the average interest rate to 8.2% as on 31st March 2023. This is 144 basis point increase in the interest rates during Financial Year 2023 compared to a 250-basis point increase in the repo rate during the same period.

Additionally, our debt structure has ensured that we have limited amortization of only 5% over the next 3 years.

With this, I would request the moderator to open the floor for Q&A. Thanks to everyone.

Moderator: Thank you very much Sir. The first question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: A couple of questions, the first one being the assets that have been acquired somewhere, I had read that the NDCF yields from those would be around 4.5% and the discount-to-GAV is 5%, so in that sense has it been slightly expensive acquisition? Would it be right to say that like how do you see it? And second on the same thing would be that from my understanding, we are raising around 35 billion and the assets would be 50:50 priced at Rs. 112 billion. So, the debt-to-equity for the asset at least comes out to be 37.5% debt at 62.5% equity. So, is the debt a bit on the higher side for the acquisition and second would be related to the current demand scenario, are you seeing any sort of weakness because of what is happening more globally?

Ankur Gupta: This is Ankur, I'll just start off about the transaction and my colleagues will take it forward. I just want to make sure that the understanding is correct. The NDCF accretion over the baseline is by 4% to 5%, which means we are enhancing the NDCF accretion. The implied yield on the asset value basis is in excess of 8%. So, all in all, this is an accretive transaction and it's also at a discount to average of fair value of two assets. So, lastly, in the context of the quality of the assets, assets of this scale are very, very hard to acquire, to amass. These are irreplaceable assets, if I may use that word. So, on all counts this is a fantastic transaction underlined by the fact that a strong institutional investor with decades of experience in this space is coming in at the same basis as the REIT is coming in at. So, that's point number one and on point number 2, we have stated as a large owner of real estate assets across the world that the high-quality assets continue to be in top demand both from an occupier perspective as well as from a capital perspective, which is also reflected in the strong performance that our REIT has had with the overhang of the COVID-led situations almost behind us. So, I would say that on all counts this is a fantastic opportunity for the REIT to significantly increase its breadth and enterprise value. So, lastly, on the question of LTV, on a look through basis if you look at the value and not look at the cost, it is in the zone of about 1/3rd or thereabouts that we think is prudent capital structure for high-quality income generating 90%+ leased assets with long term lease tenure. And as capital markets evolve, we have always stated that our LTV will toggle in the region of 25% to 35% because the value uplift that happens through income increases cannot always be captured on a static basis as far as debt is concerned.

Pradyumna Choudhary: And secondly on the demand side, like can you just give us an idea, are you seeing any sort of weakness? Are we still seeing larger deals happening now or now it is paused some idea there?

Ankur Gupta: Well, as I mentioned, we have completed some marquee and large transactions in our portfolio under REIT across our portfolio in the country. And as I mentioned, high-quality real estate needs to be separated from some of the commentary that's happening around media. That has always been the case. It is just pronounced right now, but our assets and the quality of our portfolio in India and worldwide continues to do very, very well.

Moderator: Thank you. The next question is from the line of Sri Karthik Velamakanni from Investec. Please go ahead.

Sri Karthik Velamakanni: My question again is pertaining to the transaction and I am referring to the Slide #18 in the presentation on the acquisition. There is a 2.6 billion working capital and debt financing drawdown against which the CAPEX number is Rs. 1.1 billion number. So, the gap of Rs. 1.5 billion in fact, for the year in reference is being used to support the NDCF. If we were to adjust for that, the clean NDCF looks much lower. How should we think about this bit? That is question one. Second, again, I am going to take this valuation question in a slightly different way. You announced, let's say, a discount of approximately 5.86% of the GAV, however, our REIT assets today approximately traded at 12% discount at the current market price. So, in fact the acquisition discount seems to be much lower than where the REIT is currently trading so how do we triangulate these two things? Thank you.

Pawan Kakumanu: Sri Karthik - Pawan here, I will take the first question. I think here there is a representation which has been made on a proforma basis but I think a better way to look at NDCF, or to that extent NDCF yield, is that we are doing this acquisition at a 8.2% rental yield adjusted for 1/3rd of that being through debt, which is coming at a cost of 8.5%, we get an NDCF yield of 8% on the remaining 2/3rd, which will be funded through equity based on the overall transaction level. Now typically with the lease up, which is expected over the next 2 years, taking into account G1 as well as for the lease of remaining in Downtown Powai, we anticipate that there is Rs. 100 crore of lease of rental which will come up in G1 and approximately Rs. 50 odd crores which comes up in Downtown Powai and Rs. 75 crore of security deposit inflows will come up in the next two years. Adding that into the fray as well, I think there is a north of 8% NDCF yield which is coming from these assets. I think that's the right way of looking at what value these assets are bringing in.

Rachit Kothari: So, on your second question, Srikarthik, the valuation of assets that you are purchasing from private sellers, the stock trading at a certain level should not really impact valuation of assets when you look to purchase them. Our endeavor has been to, of course, get the best deal for the REIT and the discount to NAV that I mentioned in my opening remarks is still 12%, which is double digit which is I would say in line or maybe slightly short of where the discount-to-NAV of a current stock is. So, what I would say is that is one way to look at it, but the other way to look at it is the fact that you are getting an asset at an early 8 cap rate with a 5% to 6% growth profile, you are looking at 14% asset level IRR and on top of it, if you add the 35% LTV, you will look at about a 17% equity IRR on this transaction, which is going to be immensely beneficial for the existing unit holders as well as new unit holders who choose to participate in the fundraise.

Ankur Gupta: I would also add that stock valuations are set by the last share that sold or bought. Always using that is not representative of how private capital markets or transaction capital markets behave. Our endeavor in the REIT has always been to grow with high-quality assets, not take development risk. You can always purchase discounted assets which will not qualify for the quality or take undue development and operating risks. These assets check the box on every parameter. Dominant assets almost no operating risk, certainly no development risk and fantastic income profile from credit tenants and coming at a discount to what is an independent view on valuation, so on all counts, we are very excited that it that it allows us to motor ahead on our business plan for the REIT.

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

Atul Tiwari: Just one question. So, you mentioned that NDCF per unit is accretive at about 5%. So, in that calculation you all assume issuance of new units in the QIP?

Pawan Kakumanu: That's correct.

Atul Tiwari: And obviously, the price whatever has been built in is similar to today's market price. Is that the right understanding?

Pawan Kakumanu: That's right.

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

Pritesh Sheth: Just two questions. One on the acquisition. So, for the assets that we have acquired, is there any mark-to-market opportunity that we see on the existing occupancy?

Pawan Kakumanu: Pawan here. So, there is some amount of mark-to-market in both these assets available in about 4% to 5% mark-to-market on a consolidated level on the entire 6.5 million square feet.

Pritesh Sheth: And any thoughts like when it can be realized? I mean, are the expiries of those under-rented tenants very soon or it's longer?

Ankur Gupta: This is Ankur. And I will just answer that question slightly differently. Before my colleague Rachit stated that these assets are coming at an equity IRR of about 17%, unlevered IRR of about 14%. So, starting with about 8 percent-ish yield with all the cash flow operations that's happening, I think the best way to look at it is on a total income scenario that you are getting 8% yield which is growing at about 6% annually assuming that cap rates remain the same. So, that's probably the easiest to look at.

We can go tenant by tenant on 6.5 million square feet, but there are profiles that are different. And I would also like to state that these markets have a tremendous supply cap of high-quality spaces with almost no operating risk. The ability to increase rent as expiries come through is very high. So, you are kind of trading stability with consistent growth in some of these portfolios rather than a spike which is also good.

So, overall, on the portfolio basis, it adds tremendous value to our business, but I think the best way to look at is the unlevered 14% return from these assets that shows the real compounding impact of growth.

Pritesh Sheth: Thanks, Ankur. That's very clear. And secondly, since we have good chunk of exposure to the IT services guys like Cognizant, TCS, Accenture anything we are sharing on their outlook about hiring slowdown or office space take up while, I mean, I saw we had a good renewal this quarter from TCS, but in terms of new space absorption, how do they think about the next 6 months, 12 months? That would be helpful.

Alok Aggarwal: So, we have seen a 0.9 million SF renewal of TCS for 15 years. So, that validates the attractiveness of our assets, which are SEZs. Even Capgemini has taken new space in Kolkata. We are seeing good traction across markets and from different tenants. Kolkata market has done pretty well. It has kind of revived. We are expecting a 2 million square feet kind of leases this year, and we hope we can capture some of them and lot many of them are IT services company.

So, while they are not taking space in bulk, but they are taking small leases, 50,000 or 1 lakh square feet they are taking, renewals they are taking. We have also seen examples of deals Accenture has signed and Mercer has signed. So, there is a demand. Of course, they have not grown their numbers in the last quarter, but that's okay, because they have grown by almost 20% per annum in the last two to three years. So, I mean, one quarter, two quarter, three quarter, of course, delay in decision which is okay.

But I think the icing on cake is they are back to office. And more and more the staff will keep coming back to the office, they will take more and more space for existing employees. Forget about the new additions. And that's what happened with one of the tenants in Kolkata. As soon as they cross 50% people coming back to office, they needed more space. So, even if their numbers are not increasing, that's okay. And we have seen the back to office numbers going almost up to 65% on average in our campuses. And every month, these numbers are going up. So leasing will continue. There is absolutely no issues on that.

Pritesh Sheth: And no exit or no discussion with Cognizant as well, right? No concerns on that versus what we had seen in media.

Alok Aggarwal: See, Cognizant has some space in Kolkata, some in Bombay. They could leave some space in Bombay, but that's okay, because that's happened. You know, we have seen many of these companies leaving some space, got backfilled, most of the spaces have good mark-to-market, some churn will happen in best of the times and worst of times. So, one tenant here and there is something that will keep happening.

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

Adhidev Chattopadhyay: Just a couple of questions on the NDCF. So, sir, considering whatever the recent scenario on the existing portfolio, any NDCF guidance you would like to share for the coming year in terms of what growth we can see organically in the NDCF? That is the first question.

Secondly, sir, in this transaction you have mentioned the NDCF one time you have given for the proposed asset inclusion. There is a large working capital adjustment of 263 crores. Could you just explain what is the nature of this adjustment? And going forward, how should I look at this? Is it one time or it is more of a recurring nature when we arrive at NDCF accretion number?

Sanjeev Kumar Sharma: Adhidev, Sanjeev here. Let me take the first question, and then I will hand over to Pawan for the second one. As far as NDCF guidance is concerned, I will take you back to the previous year. Even after increasing the interest cost in the Financial Year 2023, we maintain a run rate of Rs. 5 NDCF or DPU, though we are not giving any guidance for NDCF, but don't see a significant global volatility in our distributions.

Adhidev Chattopadhyay: So, you do not expect any major expiries coming up, right, is the right way to look at it? Or it's more of a stable thing for the current portfolio in the coming year as of today?

Alok Aggarwal: See, we have about 1.2 million square feet expiries projected. Now our sense is probably 50% can get expired. So, that can happen. I think we should be mindful of that. And we have been seeing this from last three years, expiries have happened. We have been able to backfill them. And most of the expiries if you talk about in Kolkata and in Noida, we see a lot of traction in the Noida market, and we have achieved 97% occupancy in N1 and in N2 we have a strong pipeline. So, where the expiry would happen, we would get mark-to-market. They could be three to six months lagging backfilling them, but we are confident that wherever expiries happen, we should be able to backfill them.

Pawan Kakumanu: On your query with regard to NDCF accretion, I think what we have presented is a FY '23 performance number. The right way we would think to look at an NDCF accretion here is that the overall deal we are doing at 8.1%-8.2% yield add to that that one-third of this has been finance debt at 8.5%, which means on the remaining equity portion, we generate a yield of 8% odd. And there is lease off which is expected in both these assets of about 150 crores of annual run rate and we expect the 75 crore of security deposit inflows happening over the next two years. Add that in and we think we are looking at upwards of 8.1%, 8.2% kind of NDCF yield. And that's how we are looking at this overall metric.

Adhidev Chattopadhyay: So, sir, just to understand correctly the NDCF which is represented should again on a longer-term basis, it should go up every year, right, on the base of what we have currently for FY '23?

Pawan Kakumanu: That would be the right way of looking at it.

Shailendra Sabhnani: So, Adhidev, the contractual, the lever for growth both in the existing portfoilio and the proposed acquisitions continue to be fairly robust. And we would see continue to go and grow on a projected basis in a similar fashion.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Afternoon, Alok, Ankur and other members of the team. Just two questions on the SEZ piece, which has been sort of holding back the industry at large. Any updates that you have to share with us, and if you could give us a breakup of vacancies between SEZ and non-SEZ? And just touching on the Cognizant piece again, any communication that you have had from them in terms of early termination etc., some assets that you could see expiring prematurely, because they have been very vocal in their earnings call? And do you see a risk that some of the other sort of IT companies may want to follow soon to go in that direction?

Ankur Gupta: IT companies have been vocal about many things. And we need to distill the noise from the reality. What is said on Main Street versus Wall Street sometimes is different. Everybody univocally has said now that this whole work from home and all that stuff doesn't work. And most markets in the world are back to full working from home. Alok mentioned the strong hiring trends that they had.

Now still that trend, the factual matter versus a commentary on a generic basis. So, there will be some churn, but there will also be very strong lease up and consolidation that we will see. And our assets are fine for it. It's up to the teams to now make the opportunity of that situation that's going to emerge. It's just consolidation because you had growth. Now it's time for consolidation. And then there will be growth again. India is very well placed to capture that growth. And some companies will do well. Some companies will not do well. And our assets hopefully will do well, and they will be attractive for companies that are on the strong growth trajectory. And we firmly believe that their growth starts when people work together in offices and create better businesses. And I will let Alok answer the second question.

But also, primarily our vacancy is in the SEZ portfolio. N1 is the only asset before the acquisition of the future Powai and G1. That's not SEZ right now, and that's almost 100% leased now. So, primarily, our vacancy is in the SEZ portfolio. And we see good communication with the regulators on reforms. Now when, those reforms happen, our expectation is sooner than later. The degree of reforms is really up to the regulators to decide.

Alok Aggarwal: So, let me take this SEZ question. See, DESH Bill is getting delayed. But we have been in constant touch with regulators, and we are expecting a partial floor by floor denotification approvals to come up soon. How soon I think is difficult to comment, but having said that, now we also have lived with this SEZ reforms, non-SEZ reforms for the last three years. We have also seen there is lot of traction here.

While non-SEZs have done fantastically well touching almost about 97%, 98% occupancy, but SEZ properties, TCS, Capgemini has a concluded space in Kolkata. Capgemini, Mercer, Accenture, these all companies are taking space in SEZ. All are renewing in SEZ. We are sitting in front of every company which is not in SEZ but is eligible for SEZ. And we are telling them the value addition which SEZ is bringing. So, we also have changed our strategy, and it's getting us results.

Aristocrat, which was never in SEZ actually, and they took a full building in Noida. And there are many tenants who are willing to consider SEZ because 25 acres campus is fantastic, safety, security, ESG, option to expand. So, we are working on that. We feel if these reforms come, fantastic. If they get delayed, we are confident we should be able to convert lot of tenants who are or if not lot, many of the tenants who are presently out of SEZs to SEZs. That's what we feel.

Moderator: Thank you. The next question is from the line of Srikarthik V from Investec. Please go ahead.

Srikarthik V: My question is pertaining to the quarterly results. When I look at the total security deposits movement from Q4 '22 to Q4 '23 on a period-to-period basis, there has been a net accretion. However, our NDCF movement suggest that it's almost a reduction or a cash outflow of 61 crores. I am trying to reconcile both these data points. That's one.

Sanjeev Kumar Sharma: Srikarthik, Sanjeev here. In the balance sheet, when you see the number, it's along with the Ind AS adjustments because you need to do the discounting of the security deposit and every quarter you would need to rewind also, whereas when you come to the NDCF, that's coming from the cash flow. So, that might be the difference which you are talking of.

Srikarthik V: And also the increase in borrowing for the year roughly Rs. 2.9 billion, against which our CapEx for the year is about Rs. 1.3 billion. So, the difference of about Rs. 1.5 billion, how would that reconcile? That's the second question.

Sanjeev Kumar Sharma: Again, Srikarthik, I think you are referring to the balance sheet number. If you refer to the NDCF statement number, which is a cash flow, yes, there is a gap, but the gap is lesser than what you mention in your question. And just to answer that why financing over on our CapEx is it is mainly to fund temporary working capital requirements or differences like withholding tax, like refund of some of the tenant deposits which have not been refilled as of today, and I would refer to last quarter's calls also, one of you have asked a similar question. I explained then also that all these temporary differences get netted off over a period of time. Maybe in one quarter we will enter into a situation where this working capital requirement funded through debt and in the next quarter or subsequent quarter should get reversed. In one year, it is funded through debt. In the coming year it gets reversed, but on over a period of medium term, it gets nullified.

Srikarthik V: Lastly, on our interest cost, which today is at about 8.2 and you are tentatively indicating 8.5% as the current incremental cost of borrowing. Would that be the new, I would say, average for FY '24 that we will have to work with for the reach two?

Ankur Gupta: This is Ankur. Look, I don't know whether the average is because we have floating rate debt. I would urge you to look at the tenure of our debt along with the cost of the debt. And in markets on global capital markets, there are slight uncertainties. Both go together. I think benchmark or at least the Central Bank both in India and most places in the world has stated a policy shift over the last few months.

Certainly, India has been quite sort of a prominent shift. So, we don’t expect, in fact, we expect the reversal. Many, as you guys are probably experts at that, many people are expecting a reversal to lowering of rates, but again, we don’t speculate on that right now. But we certainly feel interest costs for us should be coming down over a short to medium period. And as the enterprise grows larger and as lease tenure is longer, we can also look to have a combination of fixed versus floating. But given the appreciation that we have in our portfolio, sometimes long processing of debt because we don't need long tenure, but they are paying too much for it.

Srikarthik V: And then any indicative nature of distributions for the acquired assets? That is the last question.

Shailendra Sabhnani: Karthik, just before we get to this question, just rounding up the previous one, just a couple of points. If you look at the existing REIT debt, which is at 8.2%, this is already factored in as we mentioned all the interest rate hike till date, and as Ankur highlighted, we do not with the policy shift see any other increases potentially. So, there is now a downward bias that you see on the existing portfolio. For the proposed assets that we are looking to acquire, the cost of 8.5% that we have indicated is a repo linked benchmark. So, again, as we see a policy shift over a period of time should start seeing a downward trend. So, that's the way you probably want to think about it.

Rachit Kothari: On your second question, Srikarthik, like, around the distribution mix, look, I think it shouldn't materially change. However, management is actively thinking about certain initiatives to improve the dividend contribution to this mix which we can update you in subsequent quarters. But at this point in time, all things remaining the same, there will be no material change to the distribution mix.

Moderator: Thank you. The next question is from the line of Vikrant from Apricus Wealth. Please go ahead.

Vikrant: Just a couple of questions. One is probably more general. If you can give some insights into competition for tenants in the key markets that you operate in? And specific to just Powai acquisition is another question. The underpinning I guess is 14% to 17% equity IRR that you spoke about as the growth and then I look at the independent valuation report, it suggests the historical is around 2% for the market, and there is a lot of supply increase in the market size. Could you perhaps explain the reason for the optimism?

Ankur Gupta: I will just say that sometimes supply is stated it takes a long time to build assets. Certainly, a very long time to stabilize assets, and in these markets, a very, very, very long time to procure financial closures. So, I would say that, and finally to create an ecosystem. Assets that we have had been built over few decades now, and the ecosystem exists around it.

So, my suggestion on some of these averages may not work in specific situations, and for us we demonstrated these numbers in our portfolio. Lot of the escalations are contractual in nature. The TCS lease that we talk about 15-year lease with annual escalation. So, I would just say that some of these are contractual in nature. Some of these are demonstrative in nature, and expectation of future is somebody's guess, but many times in India it just takes longer to build and cost more. In fact, I would like to see how at these values new construction with buying of land will actually point over the even higher growth rate for our portfolio.

Rachit Kothari: And I will just add that look at the track record of both these assets. And we have given it in our acquisition presentation. G1 used to lease at Rs. 50 in 2015. And today it's leasing at north of 80, which is about 6% to 7% CAGR, right? Powai used to lease at Rs. 110 in 2017, and today it's at Rs. 163, right? That itself is I would say the number is in front of you. These assets, of course, command premium. They grow at above inflationary rates and have done so in the past. Not just near-term past, but over a period of five to seven years.

Alok Aggarwal: And just I would like to add here the performance of the numbers could have been very, very different if it was not for three years of once in a lifetime kind of an event COVID which we all went through. So, just look at it on how beautifully these assets have performed even after three years of COVID impact.

Vikrant: It's a quick one that I think Ankur mentioned this. So, I am assuming you can look at replacement cost. Sorry. Can you perhaps indicate if you find below or above replacement cost?

Rachit Kothari: Below replacement cost in case of Powai if you compare it to land prices today and where let's say residential apartments sell at, which is I think the best comp that you can get for land plus construction. Properties in Powai are selling anywhere between I would say Rs. 28,000 to Rs. 32,000 a foot. I think our acquisition basis on these assets is about Rs. 24,000 a foot. And a very similar dynamic in Gurgaon again, if you look at the Resi or in these markets or the land comps in these markets, the number will come out to be very similar in terms of discount.

Ankur Gupta: At these valuations, either land has to be free or construction has to be free to make financial returns at these rentals. So, our expectation is that the rentals are going to go up significantly.

Vikrant: And just the question on the competition for tenants in the key markets.

Alok Aggarwal: So, this is Alok. When we talk about risk take-up, we update market by market. When we talk about Powai, I don't think, of course, those who can't afford to in Powai, they go out and take space on periphery location, but those who want to be in Powai, they take, they continue in Powai and pay the market price. And similarly, in Gurgaon, yes, we have two or three top players and competition is among those top players.

Noida I think our assets are dominant, and we are significantly ahead in terms of rental, in terms of ability to add new tenants. In Noida at least first tenants want to see our assets, and if for some reason that doesn't work out, then they go out. That's something I have seen from last seven years happening.

Kolkata again most prominent assets. People like to be there. And for some reason, if they can't be there, then they go out to cheaper options. So, that's how we look at competition.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Pawan Kakumanu: We would like to thank everyone once again for joining us on the call. We will see you next quarter. Thank you everyone.

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