"Brookfield India Real Estate Trust Q3 FY24 Earnings Conference Call"

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MANAGEMENT: **MR. ALOK AGGARWAL – DIRECTOR AND CHIEF EXECUTIVE OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED**

MR. SANJEEV KUMAR SHARMA – CHIEF FINANCIAL OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED

MR. ANKIT GUPTA – PRESIDENT, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED

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 Q3 FY FY24 Earnings Conference Call.

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

On the call we have following persons:

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

I now hand the conference over to Management.

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

At the outset, I'm happy to say that we continue to witness an influx of GCCs into the country, resulting in demand for high quality offices. 100 GCCs are expected to be added every year almost till 2030, so another about 700 GCCs are expected in next 7 years.

The recently announced SEZ Reforms are expected to provide a big boost to our portfolio, especially because 80% of our portfolio in terms of area is SEZ.

Over the last 3 years we have seen IT firms and IT services firms have significantly ramped-up their headcount while optimizing their office requirements. With increasing return to office, we are poised to witness a sharp growth in demand for offices. Over the last 6 months these trends have resulted in growing demand from GCCs, multinational companies and also Indian companies.

I'm delighted to report that we have achieved a second consecutive quarter of record new leasing since IPO at 0.5 million square feet for the quarter. This has resulted in our gross leasing for the quarter surpassing 1 million square feet, about 1.05 million I would say, reflecting the increasing demand for our high-quality grade A office assets.

We have witnessed robust demand from GCC and IT/ITES tenants and 54% of our new leasing was to GCC tenants.

Marquee tenants such as Accenture, Amdocs, Genpact and Ion Trading, L&T Hydrocarbon, Newgen and Wipro took up space with us across the assets. Additionally, we renewed space with Deloitte, CRISIL and Evalueserve, amongst others.

Our SEZ portfolio has seen robust demand over the last few quarters, and we will continue to see this demand momentum continue. The new leasing that we achieved in our SEZ portfolio during the quarter at 4,40,000 square feet was more than twice the historical average. We believe that the portfolio rebalancing and rationalization by our SEZ tenants is behind us and in fact, some of our tenants who had rationalized space, are now increasing their footprint at our campuses as their employees return to office.

With the low scheduled expiries of 0.3 million square feet in FY25 in our SEZ assets, we expect occupancy to show substantial improvement over the course of the next 12 months to 15 months. We expect the recent reforms to further boost the demand for our SEZ assets and have applied for conversion of 1 million square feet of SEZ area into non-processing area across our portfolio. We are hopeful of receiving the relevant approvals to complete the process over the next few months.

We also have a healthy pipeline of 0.8 million square feet and growing, from tenants looking to lease the converted space at our Campus-Style Office Parks. Discussions with select tenants are at advanced stages and we expect to close term sheets shortly; approvals too are expected shortly.

With favorable leasing dynamics and the tailwind of increasing physical occupancy, we are well poised to continue the recent leasing momentum and are providing a new leasing guidance of 2 to 2.4 million square feet over the next 5 quarters, i.e., by March ‘25.

With new leasing expected to remain robust and limited schedule expirees in the near term, we foresee substantial occupancy improvement for our portfolio in the range of about 88% by March ‘25.

We have displayed strong organic growth with our existing leases having delivered a 7% average escalation on 1.3 million square feet during the quarter. In 9 months FY24, we achieved an average escalation of 7% on 5.2 million square feet.

We are continuing to progress on our development projects with a mixed-use commercial development at K1, which is in Kolkata, progressing well.

The 75,000 square feet under development area in Downtown Powai has been completed in February with OC received, 18,000 square feet of which was pre-leased to Croma and rest is under advanced stages of discussions and closure.

We continue to explore additional avenues to convert office areas into High Street retail in Downtown Powai to unlock further value for unit holders. Our high-quality portfolio has an embedded growth headroom of 14%, which will be realized through further leasing and the growing physical occupancy aiding margin recovery.

We continue to have access to almost 30 million square feet of the sponsor group's assets in key gateway cities in India which provides a strong medium to long term growth potential for our REIT.

Now I would like to invite Sanjeev to provide the Financial Updates.

Sanjeev Kumar Sharma: Thank you, Alok. Good morning, everyone.

This is the first full quarter of earnings after the acquisition of Downtown Powai and Candor TechSpace G1, which has led to a significant increase in our scale.

We have witnessed a growth of 90% in our operating lease rentals to Rs. 393 crore compared to Rs. 207 crore in the same period last year and the adjusted NOI grew by 89% to Rs. 453 crores as compared to Rs. 240 crores in Quarter 3 of Financial Year 2023.

For the 9-month period, we have seen an increase of 43% in our operating lease rentals to Rs. 878 crore and a 46% increase in our adjusted NOI to Rs. 1,045 crore. The increase is primarily due to the addition of Downtown Powai and G1 to the portfolio, as well as our recent leasing performance and contractual escalations.

We continue to have significant organic growth potential of 14% in our portfolio, which can be achieved through the lease up of vacant areas and margin recovery.

We have achieved an NDCF of Rs. 209 crores this quarter, which translates to Rs. 4.76 per unit. We are distributing Rs. 4.75 per unit this quarter.

As disclosed in the last quarter, we have filed capital reduction schemes in some of our SPVs which are at various stages of processing at the NCLT. The dividend component of distribution should get enhanced significantly post the implementation of these schemes.

We are pleased to report that ICRA has assigned a long-term rating of ICRA Triple A with a stable outlook. This is on the back of our strong balance sheet, a long-dated maturity profile, and limited refinancing and amortization over the next few years.

As we continue to lease our properties in the wake of recently announced SEZ Reforms, we will target to distribute in the range of Rs. 4.50 to Rs. 4.75 per unit per quarter over the next 2 to 3 quarters.

With that, I thank all of you and now I would request the Moderator to open the floor for Q&A.

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

Puneet Gulati: Congratulations on good leasing again this quarter. My first question actually is with respect to the unexpected expiries that you faced in K1 and how do you think about releasing this space and do you see further risk in K1 going into FY25 as well?

Alok Aggarwal: So, let me take this question, Puneet. I mean we have seen space being vacated by Cognizant, but I think the good news here is if you see we have applied for almost 0.6 million square feet of space for de-notification at K1 and with the SEZ reforms, this K1 asset has totally got rerated. It was fully SEZ area; now we can of course lease space to SEZ tenants as well as non SEZ tenants. Last 4 years we had a good demand from non SEZ tenants, but we could never offer them space. We are at advanced stage of discussions with non SEZ tenants for closure and signing of term sheets and we see no risk of any kind of surrenders. Rather, we are hopeful that in the foreseeable future, we should be able to backfill the vacant space at much better rentals and much better lease profiles.

Puneet Gulati: Second on Downtown Powai also about 3,34,000 square feet is due for renewal in FY25 as well. So, how is that shaping up in your discussions?

Alok Aggarwal: Downtown Powai if you see, we already have said CRISIL got renewed, Deloitte got renewed and whatever tenants are there, they are keen to renew. So, some surrenders would happen, but otherwise momentum is pretty good. Wherever we are doing, we are able to get good mark-to-market rentals and escalations.

Puneet Gulati: If I can ask two more one was terms of your CAPEX, in your CAPEX projects there is a mention of tenant improvement. Can you comment on what exactly you are doing for tenants? Is it more in the nature of the interior or is there something else as well?

Alok Aggarwal: See what happens is we commit a budget of maybe, let's say, for a particular tenant we commit a budget of Rs. 100 per square feet or Rs. 150 per square feet, this could be about a month or two months for rental and tenants are free to utilize wherever they want to put it, it can be used for upgradation of lobby, upgradation of toilet and generally we are okay with that because that adds to our value of the assets. So, generally it goes in the kind of area which I mentioned like lobby, toilet, etc.

Puneet Gulati: So, common areas not the tenant spaces?

Alok Aggarwal: Generally yes, common areas, which remains with us.

Rachit Kothari: Puneet, we will just add these are more exceptions, these are not norms for us generally. When a large tenant comes through, these are finishes that we would end up doing anyway. So, it is just that we sometimes add it as a sweetener to the tenant, but we would have incurred it anyway.

Puneet Gulati: So, it should be categorized as asset upgrades rather than tenant improvement I am just trying to understand?

Rachit Kothari: I mean that is a fair way to look at it, yes. I mean, it's just nomenclature, but that is really the nature of it.

Puneet Gulati: And lastly on your NOI margin especially for N1 that seems to be down. How should one read that?

Sanjeev Kumar Sharma: The NOI margin in N1 is 94% in this quarter. This has happened because of one of the exception in this particular quarter. I will say it's not a recurring or permanently down. What happens in the cycle of CAM true-up, we do CAM true-up once in a year which normally comes in either in the September quarter or in December quarter and in the current years true-up we have ended up with some of the expenses which were exceptional in nature, which could not be recovered from the tenants. That is why a dip in the CAM recovery in N1 has come and resulted into downside in NOI to OLR percentage in this particular quarter.

Puneet Gulati: But they were not capitalized?

Sanjeev Kumar Sharma: No, they were not capitalized. They were in the nature of repairs, but more towards asset upgrade, which by accounting terminology we could not capitalize.

Puneet Gulati: And same from cash flow perspective also it has negatively impacted your NDCF?

Sanjeev Kumar Sharma: But it is too small a number. If you just see, the current numbers are Rs 299 million, that means Rs 29 - 30 crores of NOI and the non-recovered number was about Rs 7.5 crore. So, on the overall NOI of Rs 405 crores pre-income support, Rs 7 crores is not a very significant number.

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

Kunal T: My first question is on your new leasing it looks pretty interesting to see quite a few IT services names in there. So, could you just talk about what exactly is driving the new space taken up by the IT services companies and if you think that we should extrapolate this therefore to potentially being a trend from here and at a bare minimum the fact that this lot should not be at least giving up more space from current levels?

Alok Aggarwal: Yes, I think this is an interesting observation Kunal, and if you see this trend is continuing from the last two quarters and will keep continuing now. This is what we said that if you see pre COVID and now, the employee headcount is higher anywhere between 40% to 60% to 80%, depending on which company we're talking about. If we see their real estate portfolio, they're down. For every company the real estate portfolio is down and as employees keep coming back to offices, they need space as on yesterday. We get calls when people want a floor and they want to close in 5 days and that has happened and we see a lot of demand is there. So, that is a trend which is continuing. We can't neglect this sector and we will continue to see momentum here and that is very much visible.

Kunal T: The next one is just in the same spirit in which you've shared the leasing outlook for FY25. I was wondering if you also have a view on what the renewals of the projected expiries look like in the forthcoming year. I know it was on the lower side in FY24, but your historic trend has been closer to 60%, 70%?

Alok Aggarwal: So, I think again in the next 15 months, we have about 1.1 million square feet of expiries. We are taking assessment that 50% would get vacated, 50% is something we will be able to renew. We are being slightly conservative considering the last year what we saw. Hopefully, number could be better, but our estimate is 50% would get vacated and 50% would get renewed, that is how we are considering.

Kunal T: And then final one just two data points just a general time frame you are expecting for the dividend component to get enhanced now that you have applied for it, is there better visibility on the timeline of that coming through and likewise what would the physical occupancies stand as of end of the quarter or if you have any view on let's say the month of December or January?

Sanjeev Kumar Sharma: As far as the dividend component enhancement is concerned, we are expecting the NCLT to approve these schemes anywhere in the September quarter and thereafter, the quarter ending December, we will be seeing increase in the dividend component and as far as the physical occupancy is concerned, I think Alok you can take this question.

Alok Aggarwal: So Kunal, physical occupancy is in the range of about 74% - 75% and it's kind of a growing every month, every quarter.

Moderator: Thank you. Next question is from the line of Satinder Singh from Eon Infotech Limited Investments. Please go ahead.

Satinder Singh: So, you mentioned a capital reduction scheme which would lead to enhancement in dividends. So, based on the plans that you have what percentage of distribution could let's say be in the form of a dividend, let's say one year out or maybe March 25 what could be a rough figure we could model into our projections please?

Sanjeev Kumar Sharma: You can model it in the range of 15% to 20% of the total distribution going to be flowing through dividend post approval of these schemes.

Satinder Singh: And when do we expect the approvals to come in please?

Sanjeev Kumar Sharma: It will be maybe if approval comes earlier, in the quarter of September, but otherwise as I mentioned it should flow in December quarter.

Satinder Singh: We have had a committed occupancy of 80% as of now and is it fair to say that this can be assumed to be the bottom given the leasing momentum that we are seeing and the inquiries that you have in the pipeline, is it a fair assumption to say that 80% committed while obviously economic is 88%, but this 80% committed is the bottom line and hopefully should look up only from here?

Alok Aggarwal: Definitely, 80% is bottom. Actually, if you really see this quarter also occupancy has only gone up very marginally. So, this is definitely the bottom and definitely it is going to go up from here. We already have said that in next 15 months,we expect the occupancy to be 88% and it could be plus so definitely that is where we stand.

Shailendra Sabhnani: So, just adding here so we have spoken about the gross leasing guidance of 2 to 2.4 million square foot and we have spoken about half a million square foot of effective expiry. So, if you do the math there, it effectively gets too high 80s by the end of March'25 in terms of the effective occupancy that we see the business going towards.

Satinder Singh: I think this guidance of 2 to 2.4 clearly helps kind of build confidence and we talked of 6 bucks per unit of embedded growth headroom. So, I just wanted to understand what are the assumptions in arriving at this figures in terms of, let's say vacancy, the rental increases and the time frame by which we expect this 6 bucks annualized to flow into the distribution?

Sanjeev Kumar Sharma: Satinder as far as components, those are already mentioned there that lease up and the margin recovery. As far as the lease-up is concerned, we have not considered any escalations in this lease up. This is at the current rates which we are seeing in the market and as far as time frame is concerned, it should be anything between 2 years to 2.5 years.

Satinder Singh: So, 2 years for us to recover this. And you mentioned about 4.5 to 4.75 as the guidance. Given all this, is there a case for 4.75 to really go down from here given that we expect the leading momentum and whatever and the interest cost repricing would have already happened by now. So, is there a case for this 4.75 to come down?

Sanjeev Kumar Sharma: As I mentioned that it is going to be in the range of 4.5 to 4.75 and we are confident that this current quarter which is going on which is March quarter should land up around 4.75 and thereafter for 1 or 2 quarter it should be in the range of 4.5 to 4.75, but thereafter definitely it should improve upon considering the lease up which is going to happen which will flow ultimately into the NDCF and DPU.

Satinder Singh: One final question if I could squeeze in sir G2 and K1 has seen no renewals this year. So, while you've already amplified that K1 you were seeing a lot of non SEZ demand and this should pick up, any views on G2 per se what is the challenge specific to this property that renewals are not happening and is there a case for us to apply for greater areas under non SEZ out of the 0.8 million we applied for about I think 0.2 so far?

Alok Aggarwal: So Satinder, G2 has actually no challenge. It's a great property just on the border of Delhi and Gurgaon. We have seen existing tenants take more space, Accenture has taken more space, we have given that number. There is the another tenant which has really grown up there -

Amdocs is taking more space. Every quarter Amdocs is taking more space. Right now, we have applied for 0.2 million. I think we are comfortable with that and every month we can apply. Now the flexibility is every month you can apply, every month there's going to be a DOA meeting that has been mandated by the government. So, I think we want to be strategic, apply get it leased out and then again apply because there's a lot of demand from SEZ tenants also. We can't lose out on them. We can't apply and then lose out on SEZ tenants and we will see strong recovery in this asset also. K1 I have already talked about.

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

Pritesh Sheth: So, first is on our leasing or occupancy guidance which you said in initial commentary that by March 25 we should be at 88% which is where the economic occupancy is right now. So, I mean, does that mean that including the adjusted for income support, I mean there won't be much increase in the total rental or NOI income. I mean how should we look at that math or are we a bit conservative on stating that 88% kind of committed occupancy?

Alok Aggarwal: Pritesh let me answer this question in two ways. Now, of course we are giving a leasing guidance and you would appreciate that we want to achieve this guidance. So, I can say that I would not say we are conservatively aggressive, but we want to achieve this and do better than what we guide. So, that is one thing.

Having said that, our economic occupancy will be much higher because today we have economic occupancy of 100% on vacant space of G1. So, on balance vacant space of G1, that would still get added and we can work that number out and share that with you, but economic occupancy will be much higher. I hope that answers your question.

Pritesh Sheth: We are already getting the income support for N2 and G1 for that economic occupancy and as you said, I mean 88% committed occupancy by end of FY25. I mean would eventually lead to your income growth or rental growth as well that should be the interaction we should look at.

Alok Aggarwal: Of course, I mean because your 88% is average and G1 will be at 100%.

Rachit Kothari: The pickup in occupancy, Pritesh, will be across assets. To the extent that increase is not in G1, you will see it translate to income growth. So, today if we think about our occupancy or vacancy area, it's about 3.8 million square feet across assets which is distributed in 4 or 5 assets. Except G1, wherever we are able to lease things up - for a minute if we assume that 2 million square feet was to lease equally across four of our parks, about a 1.5 million square feet of growth will be visible in the income and 0.5 million square feet that let's say we end up doing in G1 will replace the income support. The value will not be picked up in G1's income growth unless it's on account of higher rentals, everything else will straight translate into NOI growth for us.

Pritesh Sheth: And second on Kolkata since we are applying 0.6 square feet to be de-notified into non SEZ how do you see the rental growth there which is at Rs 45 now, would are the initial targets be to first leave that out or we would equally focus on increasing the rental potential there?

Alok Aggarwal: See, when we are applying for 0.6 million square feet we have kind of a discussions or a hard and soft pipeline for that kind of area. Of course, we are expecting rental growth and with this lot of vacant space going out from SEZ to non SEZ, our SEZ area also will reduce. This means we have a better ability to increase rentals in SEZ space also. So, we are expecting rental growth in SEZ as well as non-SEZ space.

Pritesh Sheth: If you can quantify and you mentioned that assets get rerated how much should one expect that increase to be around 10% - 15%?

Alok Aggarwal: I think in Kolkata we can consider about 10% to 15%, for this particular asset.

Moderator: Thank you. The next question is from the line of Vasudev from Nuvama.

Vasudev: Sir, what was your LTV for this quarter if you can just quantify?

Shailendra Sabhnani: Same as last quarter, Vasudev, at 34%.

Vasudev: Including the shareholders debt and excluding, so we have given 2 numbers last quarter, so both of them are same by and large?

Shailendra Sabhnani: Yes broadly.

Vasudev: Out of the 0.5 million square feet of fresh leasing that we have done this quarter, how much of it will be towards re-leasing?

Sarthak Patel: It's about 3,20,000 square feet.

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

Pritesh Sheth: Just a couple of questions. So, for N2 income support, was this the last quarter or there's some amount still left for Q4?

Sanjeev Kumar Sharma: So, Pritesh there is an amount left for Q4. So, it is more or less ending in the middle of this Q4.

Pritesh Sheth: And just lastly on releasing at CRISIL house that we saw this quarter I mean you have mentioned in presentation about 180 per square feet of rental for those renewals, is that reading right I mean was it renewed to 180 per square feet and what is your sense, could we have managed a better rentals with some other tenant or this was the amount that was expected anyways, so just your comment on that?

Alok Aggarwal: CRISIL house we have leased at Rs 187.5. Now I think that is good rental for Powai as well. So the leases something happening at depending on which location, what are terms around 170, 175 so 187.5 is a good number I would say.

Pritesh Sheth: And this is for three-year term again or they're signing now a little longer?

Alok Aggarwal: So, this is for a shorter term.

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

Puneet Gulati: On CRISIL House, can you remind us of what was the rent previously now that is 187?

Alok Aggarwal: 140 was the rental here.

Puneet Gulati: And also can you give some color and what are you seeing on the market rentals for all of your core markets, are you seeing any growth there or still largely flattish?

Alok Aggarwal: Puneet if you really see, depending on which asset we're talking about and if you see last year's top 7 cities had the maximum leasing almost about gross leasing was almost about top 8 cities almost about 70 million and while supply is equal, but supply is coming on the fringes, whereas in core markets in marquee locations there's limited supply and that is where the rentals are not only holding out, they're also kind of moving up and that is the trend across most of the properties.

Puneet Gulati: Can you give indicative market rentals for your property?

Alok Aggarwal: So, let's take example of Downtown Powai. There, rents are almost about 165 to 185, that is a range depending on which building, how much area you're taking, whether you are taking Commercial / IT, and retail could be much more. So, wherever we are able to convert office to retail, again 40% - 50% rental upside we can get. That's where we are in terms of Powai. When we talk about G2, we are signing some of the new leases - again there range is about around 90 to 95. That is the rental. In N2, it's around 65 - 67, N1 is about 62 - 63 because N1 saw phenomenal growth. I would say it got re-rated from 50 to mid-60s and probably it will consolidate at mid-60s. Kolkata we have moved up now. We are probably looking at large leases, some of the large leases we're looking at 50. We might do at lower number also, but we want to do, at least non SEZ space we can do at 50, non SEZ space we can do at 45 and with better terms. G1 is somewhere in mid-80s.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Alok Aggarwal: Thank you everyone for joining today's call. We look forward to connecting with you all next quarter.

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