

# Brookfield

India Real Estate Trust

## “Brookfield India Real Estate Trust Q4 & FY22 Earnings Conference Call”

**May 19, 2022**

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**MANAGEMENT:**

**MR. ANKUR GUPTA – MANAGING PARTNER, BROOKFIELD ASSET  
MANAGEMENT, DIRECTOR, BROOKPROP MANAGEMENT SERVICES  
PRIVATE LIMITED**

**MR. ALOK AGGARWAL – CEO, BROOKPROP MANAGEMENT SERVICES  
PRIVATE LIMITED**

**MR. SANJEEV KUMAR SHARMA – CFO, BROOKPROP MANAGEMENT  
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**MR. ROHAN GHOSH – BROOKFIELD**

**MR. RACHIT KOTHARI - BROOKFIELD**

**Moderator:** Ladies and gentlemen good day and welcome to the Brookfield India Real Estate Trust Earning Conference Call for Q4 and FY22. As a reminder all participant lines will be in the listen only mode until the floor is open for questions. Should you need any assistance during the conference call please signal an operator by pressing ‘\*’ and 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. We also have with us Mr. Rohan Ghosh and Mr. Rachit Kothari from Brookfield.

I now hand the conference over to Mr. Ankur Gupta. Thank you and over to you sir.

**Ankur Gupta:** Thank you. A very good afternoon to everybody. Thank you for joining us for our first full-year conference call and the conference call where we'll discuss the last quarter of financial year '22 on behalf of the Brookfield Group and the board of Brookfield India REIT.

This has been a fantastic year in terms of our overall performance. We have laid out our full year scorecard because it's important for us to get back to all of you who supported our business with the report card and I cannot be happier to report that across all parameters we have come out very strong and the indicators that we have today in our business point towards an even stronger performance as these trends continue to play out.

The macroeconomic story, post COVID, which is hopefully behind us or for the most part is behind us continues to remain uncertain largely on account of geopolitical issues and globally there has been increasing inflation. Some of that inflation can be called as imported inflation, some of that is a result of supply chain issues but inflation nonetheless and globally we also see a trend where Central Banks have after many-many years of low interest rate regime has started to gradually increase interest rates across the board.

The value of a stable and growing business during uncertain times is even better and that is where our business today stands out. Certainly, for a sponsor group like ours having weathered these kinds of markets in the past and having come out strong, we cannot be happier with our performance today and looking forward to exciting times ahead.

When we launched our IPO, about a year and a half or slightly less than that from today, we had pivoted our REIT with a clear mandate of strong, stable cash flows, high current returns as well as a clear trend toward capital appreciation. On both counts we have met or exceeded our expectations and hopefully the expectations of our investors and for those of you who are covering our story. We have returned more than 8% DPU yield for the year. Our total return

based on stock market performance had exceeded 25%. Inherent value of our portfolio has increased since our IPO as well as on the ground leasing success has been tremendous. I would say that leasing rates today are at par with what we saw pre-COVID.

The third part of our pillar besides strong returns and stable performance was a growth story based on both organic and inorganic factors. With the acquisition of Candor N2, the highest quality office park in NCR region, we have accomplished our inorganic growth targets for last year. The sponsor group is very pleased to continue to support the REIT as we look to grow this business further and our re-leasing spreads on current renewals and new space take-up remains as solid as ever.

With that I'll pass it on to Alok to talk about the business performance for last quarter and full financial year.

**Alok Aggarwal:**

Thank you Ankur. A very good afternoon, everyone. I'm pleased to announce that we have achieved our stated growth objectives in the first year since listing.

We have delivered an attractive total return of +25% to our unit holders including a stable yield of 8% since IPO. This has been possible with a combination of robust organic growth and the accretive acquisition of Candor TechSpace N2.

The return to office strength coupled with the expansion plan of global IT/ITeS industry in India are leading towards a strong demand for commercial real estate in India. This is reflected in the healthy leasing momentum that we have witnessed in our assets. The past year we have achieved 1.6 million square feet of leasing across assets including 1.2 million square feet of new leasing and 0.4 billion square feet of renewals. Additionally, we have signed expansion options of 0.3 million square feet during the year. Our existing leases also delivered robust embedded growth with 9% average escalation on 2.8 million square feet during the year. Rental collections remain strong at +99% for the year.

We continue to witness strong leasing demand since last quarter with 0.33 million square feet of gross leasing across assets at a re-leasing spread of 28%. We had robust cashflow generation in the quarter with an effective economic occupancy of 87%, rental collections of 99.6% and a 14% average escalation on 0.6 million square feet of lease area.

Our ongoing developments are also progressing well. We have completed a new Amenity Block of about 0.1 million square feet in N1 in January '22 and remain on track to deliver Tower 11A in N2 in this quarter. Even with the recent leasing success our assets have significant organic growth potential. As we lease out our assets, we have the potential to enhance our net operating income by 20% to 25%. This is expected to be driven by lease up of the vacancy and the return to pre-COVID operating margin. With 1.5 million square feet of ongoing discussions across assets we are well-poised to realize this organic growth headroom over the medium term.

The REIT has an attractive pipeline of inorganic growth opportunities. Our identified asset Candor TechSpace G1 is 100% complete, has received strong leasing traction during the year and is fast approaching stabilization. In the last 6 months G1 has achieved 0.33 million square feet of new leasing and has the same store occupancy of 89% in March 2022. With half a million square feet of ongoing discussions, we are confident of realizing further leasing success in coming quarters.

The sponsor group has intimated to us that they've initiated carve out of the rent generating assets totaling 2.7 million square feet in Powai Business District comprising prime office and high-street retail properties in Mumbai. The stabilized portfolio of high-quality properties has an in place rent of Rs. 158 per square feet and a committed occupancy of 87%.

We remain committed to industry leading sustainable development to deliver long-term value to our business partners and communities. Taking a significant step toward our commitment to net zero emissions by 2050 or earlier, Kensington's common areas are now operating with 100% green power sourced from Tata Power to deliver energy guarantee of origin certificate for its common area. We remain on track to receive our first GRESB score, a leading global benchmark for ESG reporting for FY22.

We'll keep you all updated on our progress in subsequent quarters. Now I would like to invite Sanjeev to provide the financial updates. Thank you.

**Sanjeev Kumar Sharma:** Thanks, Alok. Good afternoon, everyone. As Alok mentioned we have successfully delivered our stated growth objectives since listing through a combination of organic and inorganic growth.

I'm pleased to announce that the board has approved distribution of Rs. 171 crores meaning Rs. 5.10 per unit this quarter which is 2% higher than our guidance. With this the REIT has achieved a total cumulative distribution of Rs. 686 crores meaning Rs. 22.10 per unit since listing which is a stable yield of 8% on the IPO price. Including the appreciation of the REIT units, the total returns to unit holders since listing has been 25%. The tax-free component of distribution this quarter is 44% as the impact of N2 acquisition is not reflected for the full quarter. In subsequent quarters the tax-free component will likely be closer to 50%. Factoring in the recent leasing success and strong cash flow generation from existing leases, we believe we will be able to comfortably maintain our existing distribution run rate. Hence, we are providing an NDCF guidance of Rs. 10.20 per unit over the next two quarters.

Our distributions have been backed by the strong cash flow generation from the initial assets as well as accretion from the N2 acquisition. As a result, our operating lease rentals for the quarter are Rs. 185 crores which is 22% higher than the same period last year. The adjusted NOI including income support from the sponsor group for the quarter is Rs. 213 crores which is 40% higher than Quarter 4 FY2021. This growth is primarily driven by the addition of Candor TechSpace N2 into the portfolio.

Our gross asset value has been appraised at Rs. 16,036 crores implying an NAV of Rs. 334 per unit. This is 5.4% higher than our NAV as on 31<sup>st</sup> March 2021.

We continue to maintain a strong balance sheet with 32% loan to value and AAA stable rating from CRISIL. With nearly 300 crores of undrawn limits, we have ample liquidity to meet any unforeseen challenges that may come our way.

Thanks everyone with that I handover to the moderator for Q&A session.

**Moderator:** Thank you sir. We will now begin the question-and-answer session. We have the first question from the line of Adhidev Chattopadhyay from ICICI Securities.

**Adhidev Chattopadhyay:** First question is on the expiry schedule; I'm referring to slide #20; so you got a million square feet of expiry this year of which I think Powai asset is around half of that. Could you give us some color what is the renewal guidance or visibility you have on the leasing currently? That is the first question.

**Alok Aggarwal:** As you said Powai asset is close to expiry. So, we are talking to a large tenant there and there's strong interest from the tenant to renew the lease and we are in discussions. That's where we are. Now again in 1 million square feet we have about slightly more than lakh square feet in N2. We think that about 50% to 60% is something we should be able to renew in this year.

**Adhidev Chattopadhyay:** So just to understand the Powai thing is coming up in first or second half of this year, if you could state this or discussion or whatever the clarity would come when...

**Ankur Gupta:** This is coming in the second half, expiry you're talking about in the Powai.

**Adhidev Chattopadhyay:** A second question, I am referring to slide #7 of the presentation. You've given this NOI bridge of the stabilized run rate. So, depending when do you see this flowing through by in another 12 months or what is a sort of timeline you're looking at?

**Alok Aggarwal:** We think the kind of leasing we are talking about; it should take about 12 to 18 months considering the present momentum we have. Now of course things are looking positive. They are getting positive every quarter. At the present momentum it should happen in about 12 to 18 months.

**Adhidev Chattopadhyay:** Could you just give us physical occupancy across occupancy across your parks, across Noida, Gurgaon, or Kolkata? Does the number of people coming in just to understand what is the uptick?

**Alok Aggarwal:** Absolutely important question that's gets discussed every time. But the good thing is that physical occupancy is increasing I would say not every quarter but every month. The senior leadership of almost all of the tenants we talk to, they want their teams should come and the offices should start running with almost 80% to 90% occupancy by end of this year. But as of

now the physical occupancy is in the range of 20% to 30% on a given day but that means almost about 40% to 50% people are attending offices in a week's time.

**Adhidev Chattopadhyay:** If I understood correctly it was 20%-30% and you hope for it to increase to 40%-50% in this quarter itself. Is that correct understanding?

**Alok Aggarwal:** 20% to 30% on a daily basis but not everybody is coming every day of the week. On average about 40% to 50% people are attending offices. That's what I'm saying.

**Moderator:** We have the next question from the line of Sri Karthik from Investec.

**Sri Karthik:** One is in an increasing rate environment. Last year if I remember you mentioned that a majority of your borrowings are floating rate in nature. What sort of an increase to your interest outflow do you anticipate for FY22? I'm trying to also understand why when the opportunity presented you have not moved on to a fixed rate liability mode?

**Ankur Gupta:** Look we don't expect our average cost of borrowing to increase. We expect the borrowing cost to increase but not significantly. We are still AAA rated and it will inch up but benchmark rates increasing are not linearly co-related with the increase in rates. To answer your second question about fixing rates. Fixing rates and flexibility are part of a conundrum that every board discusses on a regular basis. As a REIT we are expecting a significant growth in our portfolio over the coming quarters and years and as our portfolio becomes larger, part of our debt may be fixed in nature. That being said most of the bank debt that we have are at attractive rates. Even a modest increase in spreads will possibly not have a significant impact on our overall cost of borrowing as it stands today. I'll give you a context. A 50 basis points increase in the West is on a base of 200 basis points, 50 or 40 basis points increase in India is on a base of 700 basis points. The percentage impact that we see in India is minuscule compared to what makes news headlines coming from global channels.

**Sri Karthik:** Just to summarize that you're also indicating that a 40 bps increase in Repo need not necessarily translate into a 40 bps increase in your own cost of borrowing?

**Ankur Gupta:** It may not because when spreads and as our portfolio becomes more stable and income profile gets even better despite our rating being AAA, rating agencies lender groups etc. look at that income profile and possibly our spreads could compress. Rather than doing fixed rate at slightly higher spreads and every quarter we mentioned the fact that our spreads have a lot of headroom to compress. We think that time is coming soon. All in all, we are going to retain flexibility of compressing spreads in our cost of borrowing and also harmonizing and laddering our overall maturity level with a bigger portfolio today and times to come and ultimately you will see different duration and different type of debt coming to the REIT. Just for context, our overall borrowing in the REIT is very-very small, it's about Rs. 5,000 crores plus-minus. As the size of the REIT increases, we will be able to stratify our debt.

**Sri Karthik:** I have a slightly more global question because REIT is a relatively new asset class for us out here, we're trying to figure out how REITs behave in an inflationary/increasing rate environment and what your global experience tells you about the overall rental growth during this phase?

**Ankur Gupta:** Increase in rates today and certainly in India is on the back of inflationary pressures. Operating assets such as ours or if I may be more specific, operating real assets tend to perform very well during such periods of modest inflation. That will always have a corollary to slightly higher rates, and as I said in my opening remarks, high quality assets with high quality income streams and inherent growth linked to inflation will perform even better in a slightly higher interest rate regime. And think about it, these interest rates are not uncommon in India and markets have performed really well when interest rates have been in this range. Globally, REITs tend to actually perform very well during periods of growth and India has high real growth and modest inflation. I think REITs in India have in fact a better operating current and near future than several other markets might have had.

**Sri Karthik:** Given the concerns on global GDP, particularly what we're seeing play out in our Indian IT services as well as some of the global tech names, does that worry you from an incremental demand perspective?

**Ankur Gupta:** There are two parts to it. One global GDP growth. Global GDP growth has been quite solid in the past few years, but the share of digital economy is actually increasing. So, even if GDP growth were to taper down, which I think it would surely taper down at some point, the absolute share of the services industry and certainly digitization of the global economy is going to still be fast-paced and India will be direct beneficiary of that.

**Moderator:** Thank you. We have the next question from the line of Manish Agarwal from JM Financial. Please go ahead.

**Manish Agarwal:** To the first participant, you mentioned that the renewal rate for next year 1 million sq feet expiry would be 50% to 60%. Is that understanding correct?

**Alok Aggarwal:** Yes, that's right. That's what I said.

**Manish Agarwal:** Secondly, the same store expiries have increased for FY23 and this seems to be across 2 to 3 assets, so any particular large tenants moving out of these assets or what exactly is happening? What is the rationale, which the Company is thinking of?

**Alok Aggarwal:** None of the tenants is moving out. There could be a small tenant moving out here and there, but people have surrendered some spaces, they are rationalizing the spaces and that's what is happening. We're not seeing a tenant moving out, but also what we are seeing is in some of the cases, the tenants have surrendered the space and after 6 to 8 months, they come back and ask for the same space. So, this is also happening. We see expiries happening, but overall, we see that we should be able to retain about 50% to 60% of renewables this year.

- Manish Agarwal:** And on the CAM income across assets, so since physical occupancies are starting to come back, would it see a revival this year? Would it be higher compared to last year?
- Sanjeev Kumar Sharma:** I will support this with data. I don't know if you remember the IPO paper or not. In those years, we were at a margin of 111% or 110% which has gone down during this pandemic. More physical occupancy increases our margin also because the tenants' CAM model also changes from 12/6 to different models going up to 24/7. So, as physical occupancy will increase and the CAM models will increase, the CAM margin will also increase.
- Alok Aggarwal:** Just to add to what Sanjeev is saying, it has already started happening, though in a smaller way, but it has already started happening in our assets.
- Sri Karthik:** Sure, and we would target to head towards the pre-IPO or pre-COVID levels kind of a scenario?
- Sanjeev Kumar Sharma:** Yes, that's our ultimate endeavor.
- Moderator:** Thank you. We have the next question from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.
- Murtuza Arsiwalla:** Just a couple of questions from my end. Is it worrisome that physical occupancy is not improving? I mean is there a sense we're getting that IT employees are reluctant to come back to office faster and that's pushing back the recovery? That's the first part and second, which is a completely different question is on the ROFO, you have highlighted that the sponsors carving out the Powai asset, any timelines? I believe the first one, which is the Gurgaon asset should happen over the course of the next few months, but any timeline for the Powai acquisition that we can put forward?
- Ankur Gupta:** I'll just elaborate from what Alok had answered in the previous question, which was along the same line as physical occupancy. In most of our offices, and this is pre-pandemic, and we did that analysis on a global scale, so roughly two-thirds desks would be occupied on any given day. It's never been 100%. You could have people who are traveling. You could have people who are on vacation and this hybrid work or flexibility of work is not something that only started now. It has been there for many decades, certainly in the technology sector. So, now when we see physical occupancies in the 25% to 35% range and these are averages, some markets are even higher. And what happens sometimes is there is actually a positive feedback loop when X company has a full return to office, Y company follows suit. So, if you look at let's say 30% physical occupancy and because now there is a microscope on actually measuring the number of people coming in every day and as Alok mentioned, 30% physical occupancy on a given day means almost 40% to 50% people are back at office. They will not be coming every day. So, we are approximately at the 50% to 60% levels of what a stabilized physical occupancy would look like. Certainly, in most markets, traffic on the street is back. Now, all these people are not just shopping in malls. They are actually coming to work and going to their place of work. So, this trend line, I would say, it's not worrisome. It's actually very positive. Now the question about



whether companies will be back at all which used to be asked of us two years ago, I think for the most part barring a few examples, that has been answered by company's human resources departments themselves or certainly in the C-suite. So, that is where I would say our business is headed. So, certainly very positive. And we've said this before, looking at the unemployment numbers or the employment numbers, which are so positive across the world and the fight for talent, having physical access to offices and high-quality offices, not just any offices will be a key driver for companies to attract talent, and certainly the flight to quality that we always talk about for campuses like ours becomes a key decision factor in retaining and attracting talent. So, I think across the board, while I won't be able to comment upon assets of a different quality, but on a more personal level, if my workplace offers me a fantastic environment to work that is an additional impetus for us to come back to work. That can't be said about class B or class C assets today. So, certainly those discussions are what we are seeing across the board play out. About your second question, our actions speak for the intent. The fact that sponsor group has initiated a carve out points in the right direction. The board has to take it up at the right time, but we expect that those very high-quality assets at significantly high occupancy and leasing stacks should be available to the REIT in short order. We can't put a month to it because the carve out is going on as we speak.

**Moderator:** Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

**Amandeep Singh:** Firstly, I had a question on where do you see your gross debt to LTV going, which is at 32% currently given you have a couple of assets in the pipeline across Gurugram and now even Powai. So, where do you see this stabilizing after acquisition of one or both the assets, any initial sense on this?

**Sanjeev Kumar Sharma:** Even in our earlier calls, we have given a guidance or stated our strategy that we want to keep around or below 35% LTV always. So, we will continue to maintain the same.

**Amandeep Singh:** And secondly again on the Powai micro market, we see there are also other developers who are coming out as large as 1.5 million square feet of grade A development within the micro market, so any sense if this could impact the market rentals over the next 2 to 3 years when the leases come up for renewals or do you see that the market has enough capacity to absorb grade A developments, any sense on this?

**Ankur Gupta:** It is hard to predict so far out. First the buildings have to be built and then we can talk about it, but I think if at all it talks about the strength of the market. If quality developers and sponsors are coming up with more products, it probably means the markets are strong and they are seeing continued high absorption and given today's land prices and commodity costs and overall cost to build, I would say that replacement cost estimates for new projects would mean a 35% to 40% increase over our current rentals in Powai. So, all trends actually are positive and quality supply will only make the micro market better.

- Alok Aggarwal:** If I just add here, in Powai we have done almost 0.4 million square feet of leasing last year and this momentum is only going to gather momentum and we are confident that we can lease more. Now, unfortunate part is, couple of large tenants we are talking to, we are not able to offer them the space they want, so that is the attractiveness of Powai market and having said that, the new supply which is going to come, first of all, time it's going to take and second thing is, I really don't know, is it part of the central Powai, peripheral Powai, part of the ecosystem, so lot of variables could be associated with new supply, but as Ankur said, if it is coming, it's more than welcome, market is robust and we are confident that our portfolio remains intact. There is no pressure on rentals.
- Moderator:** Thank you. The next question from the line of Sri Karthik from Investec. Please go ahead.
- Sri Karthik:** In your slide #7, the NOI bridge, you spoke about margin recovery and how that would aid the NOI growth, obviously, there will be some organic increase of CAM as the physical occupancy comes through, but assuming that let's say electricity prices or water or any of those shoot up because of the inflationary pressure that would directly flow-through to you at the respective CAM margin, in that a product understanding of how the economics work?
- Ankur Gupta:** Theoretically, it works like that because our CAM is based on actuals plus a margin, but as we speak, we are investing heavily certainly in terms of time and effort to actually bring down energy usage in line with our ESG objectives. So, the way to think about it is that these CAM margins are based on more stable operations and not sporadic increases in utility cost, but theoretically if energy prices continue to remain very high then our CAM margins get higher, but that's not the ideal way of running an operation in our view.
- Sri Karthik:** And lastly on Kolkata, that seems to be the only asset or micro market within our portfolio, which is obviously still not bottomed out from an occupancy perspective, what is the thought process there given that there is a large developmental pipeline there?
- Alok Aggarwal:** Fair point, Kolkata has been slightly behind the curve, but our sense is that it has bottomed out in terms of occupancy and occupancy is now going to move up and discussions are going on and honestly speaking, Kolkata, at the moment is slow, but the number of tenants we are talking to at this point in time, that's quite encouraging. So, we are hopeful that we should be signing it in the next few quarters. It looks promising.
- Ankur Gupta:** Just to clarify, while the absolute development potential of Kolkata looks a big number, the actual development that's happening there is a very small number and the value contribution from the Kolkata land bank is miniscule. In fact, that is a unprecedented upside that we could have on that 14-acre land parcel that we still have in the park.
- Sri Karthik:** And what also caught my attention is that despite occupancy going down and some of those things playing out, the asset valuations have largely remained stable and what explains that from a valuer perspective?

- Ankur Gupta:** So, spot occupancy on a 10-year basis contributes little to the valuations if I may just look at the math around a 10-year DCF model. That being said, slightly higher growth today than what we have experienced in the last 18 months. If you have done the DCF a year-and-a-half or 2 years ago, you would look at very little growth, but today from this point onwards, both leasing timeline duration as well as growth in the market is higher. So, if I may say that valuations were depressed last year and they look more normal this year.
- Sri Karthik:** And just a last bit from my end. In your latest FY22 valuation report, the WACC rate has not really changed, is that how it will be despite increases to the terminal risk-free rate?
- Ankur Gupta:** So, I just want to clarify, these are not our valuations. These are third party valuations, so that's one thing that we should just keep it in mind, but I think as benchmark rates go up, you could see a slightly higher WACC compensated by medium to high growth coming back into the analytics.
- Moderator:** Thank you. As we have no further questions, I would now like to hand over to Mr. Ankur Gupta for closing comments.
- Ankur Gupta:** Thank you everybody. On behalf of our team here, thank you again for your time this afternoon and our continued thanks to all of you for supporting our business and look forward to engaging with you again soon. Thank you very much.
- 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.