“Brookfield India Real Estate Trust Q2 FY'22 Earnings Conference Call”

November 10, 2021

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** **MS. RUHI GOSWAMI – COMPLIANCE OFFICER, BROOKFIELD REIT** **MR. ROHAN GHOSH – BROOKFIELD** **MR. RACHIT KOTHARI – BROOKFIELD** **MR. SHANTANU CHAKRABORTY – BROOKFIELD** **MR. VITHAL SURYAVANSHI – BROOKFIELD** **MR. MUNISH MATHUR – BROOKFIELD** **MR. SARTHAK PATEL – BROOKFIELD**

Moderator: Ladies and gentlemen, good day and welcome to Brookfield India Real Estate Trust Earnings Conference Call for Q2 FY'22. 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 conference is being recorded. On the call, we have 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; Ms. Ruhi Goswami -- Compliance Officer. We also have Mr. Rohan Ghosh; Mr. Rachit Kothari; Mr. Shantanu Chakraborty, Mr. Vithal Suryavanshi; Mr. Munish Mathur from Brookfield. I now hand the conference over to Mr. Ankur Gupta. Thank you. And over to you, sir.

Ankur Gupta: Thank you and good afternoon, everybody. On behalf of Brookfield, Season's Greetings to everybody, and best wishes to all of you and to your family.

As we begin our discussion on the previous quarter, few key themes I'd like to highlight before I pass it on to my colleagues, Alok and Sanjeev. The pandemic induced stress seems to have bottomed out in the previous quarter. By that I mean, serious leasing discussions and actual conversions of tenants taking space with us has started again. This has been a different type of stress induced by the pandemic, whereas the health of the economy and certainly, the economy that our assets house, which is the services sector, and not just for the Indian economy, but for the global economy, that seems to be on very strong fundamentals and poised for extraordinary growth. We stand to benefit from those fundamentals, which are likely to persist for a very, very long time.

As far as Brookfield India Real Estate Trust is concerned, our REIT is solid. We have shown a moderate increase in rentals, even when we think about our performance from the same quarter of the previous financial year versus this quarter, where we were looking at almost six quarters of pandemic-related operating stress.

When we listed our REIT, we touched upon the importance of a solid balance sheet and the fact that operating risk should be minimized in a yield and growth vehicle. That strategy has played out very well in our favor and makes our REIT poised for extraordinary growth in future.

That growth will come from two sources, organic and inorganic growth. We have recently declared Rs.180 crore dividend for the quarter. We believe that organic growth potential of our REIT itself is that amount, which means that there is almost 25% to 30% growth in NOI that is expected on a same-store basis as our assets lease up to their full potential.

Most importantly, the Brookfield franchise for the street provides a great source of future growth for assets on an inorganic basis. Brookfield portfolio in the country stands at more than 33 million square feet outside of this REIT, and as such those assets can be made available to the REIT. We've already identified an equal size portfolio as call option assets that the REIT will look to exercise in short order as those assets achieve stabilization, and then there are future great class-A assets in gateway markets in Mumbai, Bangalore and other gateway cities in the country, which could be made available for the REIT should it choose to grow at an appropriate time.

With that as the background, I hand it over to Alok to talk about the business highlights from the quarter.

Alok Aggarwal: Thank you, Ankur. Good afternoon, everyone. Our portfolio continues to deliver a stable performance during the quarter as businesses recover from the impact of COVID-19 and occupancies have bottomed out. The increasing vaccine rollout in the country has allowed companies to start planning their return to office. We continue to work with our occupiers in their transition back to office and then started seeing pickup of leasing enquiries over last couple of months and increasing with every month going forward.

A few key highlights from the last quarter are: The same-store occupancy at the end of quarter was 85%, including 47,000 square feet of new leasing during the quarter, while we saw tenants exits of approximately 3,50,000 towards the quarter-end, they will be substantially offset by 1,65,000 square feet of LOI, which were in the process of getting signed, and they were subsequently signed.

Our rental collections remain robust at 99%, including an 8% escalation on 800,000 square feet of leased area.

Fire approvals for Amenity Block III in Candor N1 are now in place and tower is expected to be delivered by December 2021 with occupancy certificate.

We continued our focus on ESG initiatives with 8% year-on-year reduction in greenhouse gas emissions.

We have also achieved the IGBC Platinum Certification for Candor N1 and received the Excellence in Energy Management by CII for Candor G2.

In N2, our growth pipeline asset in Noida is fast approaching stabilization and continues to see strong leasing traction. With nearly 1,00,000 square feet of new leasing achieved in October 2021, the total new leasing in Candor N2 has been over more than 5,00,000 square feet during the year so far. The State-of-the-Art Platinum-rated Tower 11 in the campus has achieved 80% of leasing within six months of completion. The leasing demand is driven by leading global MNCs looking to relocate and expand in Grade-A asset.

With advancement of vaccination programs, physical occupancies across the world are starting to ramp up, up to pre-COVID levels. India is also expected to follow this trend as infections rate remain under control. With multiple vaccination drives in the last quarter, technology companies in India are now close to fully vaccinating their employees. This has resulted in back to office plans being laid down by many occupiers. We expect physical occupancies campuses to gradually ramp up over the next few quarters driving leasing demand.

The demand/supply scenario in the REIT micro markets remains very favorable with limited future supply. Our micro markets represent 12% of office space today, but only 4% of next two years supply.

With occupiers having a strong preference for well managed Grade-A institutional developments, the campus style developments remain best place to capture the post-pandemic demand for office space.

Now, I would like to invite our CFO Sanjeev to provide the Financial Update. Thank you so much.

Sanjeev Kumar Sharma: Thanks, Alok. Good afternoon, everyone. Our portfolio continues to demonstrate robust cash flow generations and financial resilience during the quarter. We achieved our net distributable cash flow of Rs.195 crore that is Rs.6.43 per unit for the quarter. With this the total NDCF till 30th September 2021 is Rs.389 Crore, means Rs.12.85 per unit, which is in line with the guidance provided at the beginning of the year.

As per our strategy of maintaining predictable distributions, the board has decided to distribute Rs.6 per unit for the quarter, resulting in total distribution of Rs.12 per unit for the year till date. Further, considering the present occupancy level and renewal forecast, we are confident to end the year with NDCF of at least Rs.22 per unit.

The impact of the K1 CCD conversion is now starting to fully reflect in the tax free component of distribution. Of Rs.6 per unit of distribution for the quarter, 35% is tax-free in the hands of our unit holders. We believe this enhanced efficiency will increase the attractiveness of our stock to a wider variety of investors.

The operating lease rentals for the quarter were at Rs.156 crore which remain in line with our run rate for the corresponding quarter last year. This is due to the strong embedded growth in the existing leases getting offset by new vacancies created during the year.

Our net operating income for the quarter was at Rs.163 crore, which is 8% lower year-on-year. This is primarily driven by a one-time impact of CAM true up in Q2 of 2021 and reduction in CAM revenue resulting from increased vacancy. Adjusted for this one-time impact, NOI decline is only 2.5%, which demonstrate the resilience of our operating income.

Our collections continue to remain robust at 99% and we have been able to get average escalation of 8% on 8,00,000 square feet of area during this quarter as per contractual lease terms.

During last six months, our net asset value has increased by 2% and now stands at Rs.324 per unit based on a gross asset value of Rs.11,660 crore. We continue to maintain a simple capital structure with low leverage and ample liquidity. With a gross debt of Rs.2,185 crore, we have a low LTV ratio of 18.7%. This provides us sufficient headroom to upsize debt in the future for accretive inorganic growth opportunities.

With that, I would hand over back to the moderator. Thanks a lot.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: The first question is on the new leasing and renewals on the slide #18 of your presentation. You mentioned around 0.6 million square foot is expiring for REIT in FY'22. On your renewal pipeline, obviously, for the full year you have said 40%. So, for the second half, how much of the 0.6 million square foot, are you confident of renewing? And another clarification, I wanted is the LOI is under execution which you have mentioned in the previous slide of 1,64,000 square feet. Will these also now start from Q3? And beyond this, what is the visibility of lease ups for the next six months based on our discussions with tenants?

Alok Aggarwal: Let me answer the second question first. See, this 1,64,000, wherever r the LOI has been signed, we should be able to sign agreements this quarter, and they should start providing rent going forward. Now, most of these spaces which have been signed are in Bombay and Noida N1, and these are smaller spaces which have been signed. There is a very good amount of leasing which is across assets, in fact, in Gurgaon also, we have very strong momentum that the leases in this session are a bit larger, so they are taking slightly more time, and there could be good news very, very soon. So, what's happening is now everybody knows that tenants have to be back to offices. And while existing tenants are taking some time to ramp up maybe two, three quarters, but tenants need new space, because hiring has been phenomenal. For tenants who need new space, they have to close it now. I mean, if they delayed further, they probably will have to compromise on the available space, they will not get a great space, maybe two to three quarters down the line. So, we are seeing very good strong demand across markets and they should start converting to LOIs and leases very, very soon. So, this is on new leasing. If there's anything more I can answer that. On existing, we have always maintained that about 40% of the renewals are something we expect to close. So, balance, whatever expiries are about 50%, 55% we should be able to able to renew and I think 40% is something what we're looking at on a yearly basis for this year.

Ankur Gupta: I'll just add to that, if you look at the potential income of our assets, you can almost add another quarter of income that is likely to come in once the assets achieve that historical occupancy levels of the 95% to 99% levels that we've seen traditionally in our assets, and that's the organic upside that I was referring to in my opening remarks, which is a matter of time, given the leasing traction that we are seeing in the market that Alok mentioned. And that's something which is an important point that we want to emphasize.

A Chattopadhyay: So, to broadly understand on the same-store basis, the occupancy is now 85%, do we expect this to touch closer to 90% let's say, by March of this year, is it something you think is fairly achievable considering the pipeline?

Alok Aggarwal: I would say let's not get into what our projections are. We are very confident and excited with the prospects. Let's not give a number. I think let's see how it was, a quarter here and there, we never know.

Ankur Gupta: We don't manage for occupancy, we manage for total return. So, that is something which we have to keep in mind that while the momentum is strong, it's time for us to capitalize on that momentum rather than manage for occupancy, which may look good on a piece of paper over a quarter, but may not be the most value-accretive transaction to do. And hence, Alok's point is very simple, which is let's not look at March. As a number, tenants don't make decisions based on financial quarters, they make decisions based on actual demand, which is very strong.

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

Kunal: Couple of questions from my side. The first one is on your vacancy rate. It moved up this quarter in the market, kind of flattish trend. Would it be largely the timing of exits you've had in the portfolio versus the others? And then the second question is kind of the updated DPU outlook that you're providing for fiscal '22, it kind of implies Rs.5 a quarter for the next two quarters, a little bit lesser than what we've seen in Q2, again, is that purely a function of what's happened to vacancy rates or is there something else going on?

Alok Aggarwal: Now, let me answer the first question, Sanjeev can answer the second question. So, in terms of vacancy rates what you're talking about, this is more in line with what we have baked in the numbers. And that's what we were aware that this is what we are going to touch. And that's how we have that and that's how estimate was. There's no surprises on this.

Sanjeev Kumar Sharma: Kunal, as far as DPU for the period up to 30th September is concerned, it includes even some portion of the stub period, which was for about one and a half months, so, comparing this six months DPU with the NDCF of coming six months will not be appropriate. Having said that, as far as this Rs.5 per quarter is concerned, this is basis the current vacancies which we have, basis our renewal estimates which we are expecting and are very confident that we will be able to do. And as we did in the last quarter also that we gave guidance for six months which was pretty visible to us and we were confident and we have achieved also the same. This quarter also we are giving the guidance for the coming six months to a number which is very visible to us, we are very confident. But if the leases goes up beyond our expectations, then this NDCF may go up also in coming future.

Ankur Gupta: Just add to add to the remarks that Alok and Sanjeev have made, if you add the 170,000 square feet of advanced discussions again, quarter-over-quarter you have to just normalize it, that adds almost two percentage points to our occupancy levels. That pushes it up to 87% which probably is in line with the other portfolios that we've seen both public and private in the marketplace. And again, this is not reflective in anyway of the potential both in terms of mark-to-market as well as occupancy levels. We expect occupancy levels to be in the high 90s. And as a result of that, the DPU guidance will look different coming into next financial year, even leaving aside the stub period, which of course added a month and a half extra cash flows for the first half of this year's distribution.

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

Amandeep Singh: Firstly, in your opening remarks, you touched upon physical occupancies increasing gradually. So, in that context, can you give us some sense on what has been the physical occupancy at your parks across micro market? Also, by when tenants are expecting say to have around 50% of employees back to office, any sense on that?

Alok Aggarwal: What we are seeing and what we are talking to our tenants, about 40% to 50%, of occupiers already back to campuses, but it's not that every occupier come in every day in a week, so on an average, average occupancy could be lower, but about 40% to 50% employees are coming to offices. And let's say by Q3 to Q4, it's expected that 90% of the staff would be back to offices, and plus the new staff. About 10%, 15%, people will still have a lot of flexibility to work from home or work from anywhere that would happen by end of next year. But I think 90% of the existing staff plus new staff should be back to office by year-end. And some of the companies could be bit advanced, some of the companies have already kind of announced their back to office programs, and these Indian companies, they could be slightly advanced, they could be back to office by Q2, some of the companies could extend it up to Q3 or Q4 next year.

Amandeep Singh: Secondly, on the gross leasing this quarter of 47,000 square feet, so can you give us some sense on what would have been the re-leasing spreads? And also with this, we note some impact on occupancy at K1 with no change in expected lease expires in the remainder of FY'22. Also, can you help us understand what has happened here and how is the leasing pipeline specifically for this asset?

Alok Aggarwal: The 47,000 square feet which has happened, that's at market rents. When we talk about K1, we have a good demand, good space enquiries. And we are hopeful and confident that should lead to a closure shortly. We don't have a lot of spaces in K1. Our concern is that we should fill it smartly so that our tenants benefit the way we plan it. One part is Kolkata kind of the demographies, enquiries are more than what we have anticipated. Not sure we can meet all the demand, but let's see how does it pan out.

Amandeep Singh: So, over the last few quarters, there has been talks around the de-densification, but fresh leases were not happening, in that context where RFPs floating now, given the LOIs and also ongoing discussions and site wages picking up. Can you give us some sense on how the on-ground de-densification is picking up, any sense on that?

Alok Aggarwal: I think this is an important question and it depends upon organization-to-organization. Definitely, every organization is focusing on employee experience. That's something very, very clear. With a small organization or a large organization, Indian or multinational, they want the employees to feel good when they come to office, because today, we all know the need for talent which is going on in IT companies that has never been there. And it's not just a one-year phenomenon, probably that will continue to happen for next 12 to 18 months or 24 months. The guidance which IT companies have given in terms of growth is two digits, not for just one year, but for next three to five years. So, a lot of companies are providing more space to the employees. But more than that, what they're doing is they're providing more of the public spaces or the common facilities they are focusing a lot, in terms of gymnasium, in terms of crèche, in terms of breakout zones, in terms of recreation rooms, that's something all employers are focusing on, and that's become a thing for all the new space take up which is happening.

Moderator: The next question is from the line of Puneet from HSBC. Please go ahead.

Puneet: My first question is on the bridge from NDCF at SPV level to NDCF at REIT level. How do we join that bridge from 1,368 to 1,947 of NDCF?

Sanjeev Kumar Sharma: Puneet, if you guys recall even in the last analyst call for the last quarter we mentioned that we do have opening cash sitting which may be used for the NDCF in the coming quarter to achieve our NDCF and we gave our guidance according to that only. So, about Rs.58 crore is the gap at SPV and at REIT level. So, the opening cash sitting at SPVs level we wanted to consolidate that in the REIT level for further distribution. That is the cash which got upstream from SPVs to the REIT level.

Puneet: So, it's just cash which is already in your balance sheet, so your net debt would have been affected to that extent?

Sanjeev Kumar Sharma: That would have been affected. The gross debt there would not have been any change.

Puneet: You have an interesting slide, which talks about leasing pipeline and there you say that about 59% of the leasing pipeline opportunities are coming on account of relocation from non-institutional assets to institutional Grade-A assets. Can you give some more color on this -- is it non-institutional Grade A to institutional Grade A or is it also a transition from Grade B to Grade A?

Alok Aggarwal: This is not something which is just for this year, this phenomenon has been going on, since we took the assets, we have seen a number of consolidations which have happened, largely I would say they were largely from Grade-B non-institutional, also it could be a Grade-A institutional, but a non-campus. People prefer to be in campus because they have public spaces, they have open spaces, they can walk around the campuses, and more than anything they have a sense of safety and security, and above all, they can expand when they want to. Otherwise, if it's a single building how do you expand? I mean then you have to probably open a new office in a building, which could get built down the line. So, people prefer to be in a campus. Even if there are different buildings that they prefer in same campus. So, that's what it is. And we have examples, we have mentioned in the past of companies, whether it's Noida or Gurgaon or Bombay, companies have relocated to our campuses for various reasons. And that's what this slide is depicting.

Ankur Gupta: It's actually feeding into the previous discussion about de-densification, etc., When you have amenitized campuses, which have large spaces to walk, gyms, crèche, massive amount of retail spaces, food halls, etc., that contributes to the experience while keeping occupancy costs lower for employees, which is how we define Grade-A assets. In my career in real estate, I've never seen anybody who call their asset a B-Grade asset. Everybody thinks of their asset as a Class-A assets only. And we're not here to judge anybody, but this is our own classification. And another point that I would like to make is regarding relocation, expansion and consolidation. All three are a way how we have classified the requirements; but many times the requirement coming from expansion or consolidation that has not been met or has been bottled up leads to relocation which is what we're going to see a lot coming into the next year where people have grown, but because of whatever was happening during the health induced pandemic, the decision to relocate had not been taken. Whether you call it relocation or change in the way people need to take care of their employees or their expansion is up for a theoretical debate. But the fact remains that organizations need very high quality campuses and need more real estate to be able to operate their organizations efficiently as well as take care of attrition and employee morale, etc.,

Puneet: So, just a little more color on this relocation. So, is there a rental element to this relocation as well, are they trying to get into more efficient rental areas, low rent or are they moving up the curve in terms of higher rental campuses? And second, does it also have to do with, to some extent the consolidation of their office spaces into smaller office hubs closer to employee homes, if you can give color on those two counts as well?

Alok Aggarwal: I think rental element is, I would say always there. Not necessary, maybe that they are going to be a lower rental, they could be paying a higher rental also. But for the last eight years, you have grown incrementally, you are present in different buildings or different locations, and just imagine the kind of admin cost, the management cost of four different offices in a location, and then if you can come to one campus, in one building, even if you're paying maybe 10%, 15% higher, but just see the efficiencies in terms of IT cost, efficiency in terms of admin cost, efficiency in terms of logistic costs, that gets the saving.

Puneet: Wouldn't you classify it under consolidation?

Alok Aggarwal: Yes, that's kind of a consolidation, it could be staff consolidation, it could be consolidation plus growth, and it can be also a desire to move to a better campus. So, in our N2 why people came, they just like the campus, they saw the building, they said, we want to be here, nothing else, I mean, the building was great.

Ankur Gupta: And we are getting high rentals in the market.

Alok Aggarwal: In a single building, they were there for 10-years. They would have continued, but they said "This is an opportunity, we must take it. Otherwise, we'll probably continue the same building for next 10 years." So, there're various different elements. I don't think one can fit everything. But yes, I think your point is very valid, that efficiencies are driven, whether they are through rental, or they're through consolidation, or they're through rationalization of areas or four receptions now turning into one reception, or four small gymnasiums now coming into one gymnasium, or no gymnasium… because you have a gymnasium in the campus. So, efficiencies are always there. That's a very valid point you're making.

Ankur Gupta: But I would also say that you mentioned about deconsolidation, which is what people talked about a lot when the pandemic started, hub-and-spoke models and so on and so forth. People were talking about 85% or 75% of people never come into office again. Those were I would say in many cases, irrational statements made without any surveys, without any scientific derivation of requirement for office spaces. And we've seen how people have turned back on those comments and nobody's talking about some of those numbers which were out of thin air anymore. In fact, the secular trend is towards coming back to office and planning for that coming back to office. Similarly, deconsolidation just for sake of it is not practical for most organizations. In fact, the trend has been towards consolidation of spaces, because that's much more efficient. Again, jury is out there. But at least we are not seeing deconsolidation happening in any big way, contrary, we are actually seeing great examples of consolidation happening in our campuses.

Puneet: Ankur, you made a very interesting comment, you don't manage for occupancy, you manage for total return. Should one read that statement in a way that you're okay, keeping some space vacant, because currently you're getting lower rentals, and as things improve, you'll get better rentals and then you will lease it out?

Ankur Gupta: It's analytics, right. If we lease the space permanently at below what our assets should command, then that's a value loss for possibly 15 years, Puneet. Now, why do we always emphasize or why have we always emphasized that we are going to keep a solid balance sheet, because that allows us to keep our distribution that allows us to keep a solid core and allows us the flexibility to say no to business that is permanently impairing value. At the same time, we are a services driven organization, we are an organization that cares about our tenants and their requirements and hence, it's a total return game for us, it's not about managing for a quarter or two because that could create permanent damage to valuation of our assets and hence shareholder returns over a long period of time.

Alok Aggarwal: I would just add something here. Yes, numbers are important and they are always important, but sometimes you have to think strategically, sometimes some tenants are large, they're important tenants. And if they have indicated to us that they need some space maybe in 12 months, we have to give space for them, we can't just put them in a situation that there's no space, and they have to go out and hunt the space. So, we have to. That's very, very important criteria for us to keep making sure that large tenants if they need a space, the space is available to them.

Puneet: I get it. So, these are hard options or soft options?

Alok Aggarwal: No, for tenants that are with us in four out of five campuses, if he says, I need 50,000 square feet in six months, there is a hard option or soft option it doesn't matter, he has talked to us, we have conveyed, they will take the space. These are very, very deep relationships.

Ankur Gupta: Puneet, we are a numbers driven company, 2% of vacancy for a campus like G2 is a massive amount of area we're talking about. So, those kinds of swing spaces always exist. Our campuses will run in the high-90s. We never said they run at 100%. Whereas physically if you see a campus like G2 was actually running at 100% for many years. And that's a phenomenon that we expect to happen again given the critical infrastructure nature of our assets.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: My first question is Sanjeev ji partly alluded to that when he spoke about the difference between the NDCF at both the REIT and SPV level and also because of the spillover from the one and a half months, which was continuing in the last six months. So, of that total spillover what would be the cash which will be leftover?

Sanjeev Kumar Sharma: Venkat, if you just see the balance sheet as of now, we do have cash sitting in our balance sheet, and out of that Rs.180 crore need to be distributed. So, we have kept for the working capital which we foresee as of now is required for the working capital because you can't run a company without having cash available in the balance sheet.

Venkat Samala: So, ex of the working capital, this is Rs.180-odd crore distribution is being paid out, right?

Sanjeev Kumar Sharma: This will be paid out because as of now the balance sheet has the number of whatever payout of Rs.180, Rs.182 crore we need to make for this Rs.6, so, that will be paid out of this cash.

Venkat Samala: So, that spillover is largely done with, right, there is no more impact of that in the forthcoming quarters?

Sanjeev Kumar Sharma: Yes, it's largely done, that's why even in our guidance for Rs.10 we have given basis to whatever the operational performance will be there for the rate.

Venkat Samala: So, everything will be driven organically now, I mean, the Rs.10 that you will be passing on?

Sanjeev Kumar Sharma: Yes, except 85 paise because NDCF till September is Rs.12.85 and we have declared Rs.6 now. So, the overall distribution till September is Rs.12. So, this 85 paise is only the spillover, rest all is coming from the operations only.

Venkat Samala: Okay. So, Rs.25-odd crore cash is still left?

Sanjeev Kumar Sharma: Yes that's sitting in the REIT balance sheet.

Venkat Samala: And the guidance of Rs.22 that you've written NDCF/distribution. So, I'm just trying to understand which of the two should we be considering because till now the payout ratio is at 93%, right?

Sanjeev Kumar Sharma: Venkat, till now, what we were doing and in future also what we will continue to do is we want to make our distributions predictable. That's why Rs.12 we distributed till September and we want more predictable distributions in coming future which will be Rs.10 and we are saying that whatever around Rs.10 will be there from the NDCF will get distributed by the year-end. So, we do not want to carry forward undistributed NDCF out of this Rs. 10 by the year end.

Venkat Samala: So, both will converge basically?

Sanjeev Kumar Sharma: Yes.

Venkat Samala: And with respect to the traction that you are seeing in the leasing if you can quantify in terms of site visits how the site visits would fair compared to the pre COVID levels, would it be reaching those levels?

Alok Aggarwal: I mean there was a time when we also kind of did I would say digital site visits or we kind of took people around they were sitting in Singapore or USA, but now today every site visit is happening, people those who want to take fast decisions they are for large leases they are visiting every week, they have to close it the site visit is happening very much physically.

Venkat Samala: So, is it some distance away whatever you had at pre COVID levels or it is largely reaching there?

Alok Aggarwal: In terms of site visits you are saying.

Venkat Samala: Yes.

Alok Aggarwal: I mean if somebody has to sign a lease, it is not that there is COVID, the senior person is not visiting or he is taking time to visit. If they have to sign a lease, they have to visit the site. People, who have to take a decision, who are part of decision-making group, they are visiting sites as soon as required. Even globally people are travelling.

Venkat Samala: And about that 1.3 million square feet that you mentioned is under different rounds of discussion if you could give some color with respect to the sectors and the micro markets where you are seeing the greater interest?

Alok Aggarwal: Sectors it is all driven by tech, all led by tech. It could be part of consulting or part of BFSI. I would put all in one basket which is tech and when you talk about global markets it is across sectors. As I have said, Noida and Bombay we have already signed something. Gurgaon requirements are bit larger hence they are taking good time. Because they were larger it is taking more time because more people get involved, but I would say across geographies, but in a 1.3 million I would say Gurgaon has bit of a higher percentage.

Venkat Samala: Will it be possible to sort of understand which quarter could be that inflection point where we could start seeing a higher fresh lease ups, would it be this quarter, next quarter or possibly FY23 itself?

Ankur Gupta: Maybe I will take it and I will repeat myself when we are talking about all of us here are driven by capital markets and hence we talk about quarters, but an organization does not look at March 31st as a cutoff date to take up space. This is slightly a difficult question to answer, but I will still make a try at it, what we are seeing today will reflect into positive leasing very shortly whether that takes Q1 of next financial year or next calendar year I wish we could just look into the glass and say it, we would not be sitting here giving this commentary if the tremendous momentum that we are seeing was not real and was not actually converting. Given that we have had probably one of the worst period for actual commercial real estate utilization by physical presence of people over the last 6 quarters even in the opening remarks we said that the bottoming out has certainly happened.

Venkat Samala: So, in terms of intent there is no question about it, it is just a timing issue that is what you are getting at right?

Ankur Gupta: Yes we have very high intensity and intent to lease all the spaces that are empty right now.

Venkat Samala: And my last question would be in terms of early expiries that we saw of about 0.01 million square feet some color on that what is the sector to which the client belong or what is the reason?

Sarthak Patel: I mean these expiries have basically been in the Calcutta market. Again relatively smaller areas and these are expiries which we are basically the tenants optimizing the requirement in the short term.

Venkat Samala: And it will be an IT tenant?

Sarthak Patel: Yes.

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

Sameer Baisiwala: I have heard your commentary, but just wanted to be sure that numerically speaking have the vacancies peaked or do you think given the expiry in second half it can go up a bit more?

Ankur Gupta: I certainly like to believe that the pandemic-induced vacancies have bottomed out which means they have peaked in a different nomenclature, but yes and the reason I say that is because we are seeing across the board, fresh take up of spaces. Now once that starts to happen even the fence sitters start to come back and create a fortress around their areas and that is why I mentioned we manage for total return not for occupancy because once you start getting positive momentum around new tenants taking up spaces; as Alok mentioned a fact that of a new tower that we completed, literally a majority of that during pandemic' and the phenomenal quality that has come out; 80% of that space has been taken up by new tenants which means the majority of tenants in the park which are incumbents will need to fortify their spaces. So, it is quite an amazing game theory that goes on in this business partly driven by the fact that the fundamental business of technology has increased rapidly if that was not the case no matter how much space you take up if the businesses have underperformed you might see more vacancy levels coming up despite the reason being over which we saw back in the 2008 crises that continued for a very long time because there was a structural vacancy being created because of lot of financial institutions not being in business anymore which is completely the opposite of what we are seeing right now. Most of our occupiers have had phenomenal business growth and the reason I believe or we believe as a group that the bottoming has happened it is simply because new take up is happening.

Sameer Baisiwala: Small observation I think your K1 rental on quarter-on-quarter in place rental has come down from 43 to 42 anything to say over here?

Sarthak Patel: Basically, with one of the occupiers in K1, we have negotiated an extension of the lock in on that lease. It is a relatively a little large lease of 2 lakh square feet. As a part of that extension, we have offered a rent restructuring by a couple of rupees.

Sameer Baisiwala: In your conversations now when you are signing new leases is there any material changed to the contract now versus pre COVID in any sense and specifically as a rent-free period remains broadly on an average say 3 months or is this undergoing a change?

Alok Aggarwal: Sameer in terms of contract I would say leave about commercials which vary from lease-to-lease, tenant-to-tenant, asset-to-asset how large that tenant is so that is a different contract remains same actually and to answer your question on rent free see that bit of a function if the tenant is larger we probably end up providing a bit of a larger rent free because they have to do fits out and 2 lakh square feet fit out would take not 3 months it would take 4 months, smaller tenants could be two and half months, three months.

Sameer Baisiwala: So, sir you said the average is 2. 5 months to 3 months?

Alok Aggarwal: I am saying I am not talking about the average number I am saying smaller tenants have a smaller rent free and larger tenants have a bit of rent free because they need more time to do their fit out.

Ankur Gupta: If the tenure is 15 years for example full lock in then the rent free could be different than a three-year lock in lease.

Sameer Baisiwala: I understand these levers it is just that I am thinking in my head that how do you realize this 25% organic growth potential it is for our industry quarter is an important timeframe so if you were to say start leasing up in some time in first half of next calendar and then we add the rent-free period so when does actually the DPU spikes up and that is the reason why I am asking about this rent free growth?

Alok Aggarwal: It is a completely fair question and I would say that given the momentum that we are seeing the DPU accretion should start happening first part of next financial year.

Sameer Baisiwala: And one final question with your formation how do we think about you know call option asset, ROFO asset acquisition two parts to it. A in terms of timelines now that things all coming back to live and second is your reach is probably one of the more attractive gross lease at whatever 7.5%, 8% so do you think with such large acquisition you will be able to make it yield accretive, so just a thought on these two points?

Ankur Gupta: Thought underlying any acquisition should be that the shareholders should see value in those on a accretive basis both in terms of net asset value accretion as well as DPU accretion.

Sameer Baisiwala: That is very helpful and timelines if you have any in mind?

Ankur Gupta: I think given the progress that we made in our identified assets I think some of these conversations are imminent.

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

Manish Agarwal: So, my first question could be pertaining to the ongoing discussion slide which you have given so last quarter it was 0.5 million square feet this quarter it is 1.3 million square feet just have a clarification these are spread across number of leases or are these chunky measures?

Alok Aggarwal: Yes number of leases as I have said earlier some of these are larger like two of them are much larger in nature and otherwise spread across different companies.

Manish Agarwal: Secondly on the same store expiry 100,000 square feet which went away so anything possible over the next two quarters any discussions which you currently having, any tenants considering?

Alok Aggarwal: Let me not talk about next two quarters discussions are ongoing maybe one of the tenants who has surrendered some space probably they can take more space, but yes discussions are ongoing, they are positive, we are confident I will say whether it is one quarter, two quarters I mean that something I would refrain.

Manish Agarwal: No, I was talking about the increase in expiry which happened the same store expiry, the 100,000 square feet?

Alok Aggarwal: So, this is no further expiries are expected.

Manish Agarwal: And lastly looking forward over the next two years the largely expiries are in Kensington asset so any discussion you had the asset has relatively under the interim at current prices to the market prices, so any discussion you had with the tenants over there?

Alok Aggarwal: I think we will start discussion I think there is a right time for discussion and we will see the right time. We know that tenants want to continue, but what is the right time to start discussion we will take a call on that.

Rachit Kothari: Manish if I can add about our ROFO properties between last year and this year. Basically our ROFO properties are pretty much in the same zip code, a large part of it. We have done about 400,000 square feet in the neighboring buildings. So, demand is back and it is back at really healthy rentals and I think this mark-to-market is pretty much achievable. It is a question of when the right size of demand comes for these buildings.

Moderator: Thank you very much. I now hand the conference over to Mr. Ankur Gupta for closing comments.

Ankur Gupta: Thank you everybody for your participation. Thank you for your interest in our REIT and thank you for your continued support of our business. We wish everybody a great festival season ahead leading into the New Year and we hope to be back with you soon with further commentary as the business plan evolves and certainly in the next quarter. Thank you very much.

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