

Mindspace Business Parks REIT

SSIS IPO GRADE 4.5/5 (Sound Fundamentals)

10th August, 2020

Rating Overview

Mindspace Business Parks REIT owns a quality office portfolio located in four key office markets of India. Its portfolio has total leasable area of 29.5 msf and is one of the largest Grade-A office portfolios in India. Portfolio comprises 23.0 msf of completed Area, 2.8 msf of under construction area and 3.7 msf of future development area, as of March 31, 2020.

Their Portfolio has 5 integrated business parks with superior infrastructure and amenities and 5 quality independent offices. Their assets provide a community-based ecosystem and they have been developed to meet the evolving standards of tenants and the demands of "new age businesses", which makes them among the preferred options for both multinational and domestic corporations.

The slowdown in demand for commercial space is a big concern for the REIT. The increase in work from home (WFH) trend can lead to higher vacancy in key market geographies, adversely impacting rental income in the near term. The current slowdown has initiated a series of renegotiations of existing contracts at lower rates which is impacting rental income.

Current dividend yield works out to ~3.5% for Mindspace REIT (M-REIT), which is projected to increase to 7.5% in FY22E. Most of the earnings will be paid out in the form of dividends, which is tax exempt for all categories of investors. Post the IPO, there will also be a debt reduction of ~ ₹3,000cr for the company, which will bring down debt to equity ratio from 2.95x at the end of FY20 to below 1.0x, which is a key positive. Given the current uncertainties due to Covid-19 the listing gains may be limited. We believe that in the long run M-REIT will offer similar or better post tax yields as compared to fixed income. Steady and growing dividend stream along with capital appreciation of underlying asset makes it an attractive investment opportunity in the long run.

Our overall rating of Mindspace REIT is fundamentally strong and it holds a fair valuation post issue. Due to uncertainty revolving around rental yields we would advise investors to avoid the issue for now and purchase from the market later for medium to long term share appreciation and steady dividends.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



Business Overview

The Sponsors of Mindspace REIT are ACL and CTL. Both the Sponsors are LLPs incorporated under the LLP Act, at Mumbai, Maharashtra, India. Both ACL and CTL form part of the KRC group (Raheja), which is one of India's leading real estate development and retail business groups, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, malls and residential segments. KRC group has acquired and/or developed properties across various businesses of approximately 28.5 million square feet (msf) of commercial real estate, as of March 31, 2020.

The company owns a quality office portfolio located in four key office markets of India. Its portfolio has Total Leasable Area of 29.5 msf and is one of the largest Grade-A office portfolios in India, which comprises 23.0 msf of Completed Area, 2.8 msf of Under Construction Area and 3.6 msf of Future Development Area, as of March 31, 2020. Its Portfolio has five integrated business parks with superior infrastructure and amenities (such as restaurants, crèches and outdoor sports arenas) and five quality independent offices. Company's assets provide a community-based ecosystem and we believe that they have been developed to meet the evolving standards of tenants and the demands of 'new age businesses', which makes them among the preferred options for both multinational and domestic corporations.

Mindspace REITs Portfolio is located in Mumbai Region, Hyderabad, Pune and Chennai ('Portfolio Markets'), which are amongst the top six key office markets of India and accounted for approximately 58.0% of total Grade-A net absorption in the top six markets in India, namely, Chennai, Mumbai Region, Pune, Hyderabad, Bengaluru and the National Capital Region during the fiscal year 2020.

As of March 31, 2020, its Portfolio is well diversified with 172 tenants and no single tenant contributed more than 7.7% of Gross Contracted Rentals. Furthermore, as of March 31, 2020, approximately 84.9% of Gross Contracted Rentals were derived from leading multinational corporations and approximately 39.4% from Fortune 500 companies. Company's tenant base comprises a mix of multinational and Indian corporates, including affiliates of Accenture, Qualcomm, BA Continuum, JP Morgan, Amazon, Schlumberger, UBS, Capgemini, Facebook, Barclays and BNY Mellon, as of March 31, 2020. The total market value of Mindspace REITs portfolio as on 31.03.2020 stood at Rs. 23675 cr.

Fundamental Overview

For the last three fiscals, Mindspace REITs has posted total income/net profits of Rs. 1502.20 cr. / Rs. 161.00 cr. (FY18), Rs. 1697.70 cr. / Rs. 514.40 cr. (FY19) and Rs. 2026.20 cr. / Rs. 513.90 cr. (FY20). Thus while it has shown growth in its rental income, its bottom line has seen downtrends for FY20 and is perhaps the precursor of things likely going forward.

2

Mindspace REITs unit's NAV as on 31.03.20 stood at Rs. 319.50. On this basis, the issue is priced at a P/BV of 0.86. Considering the current quote of the listed peer Embassy Parks, this issue appears fully priced.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	31-Mar-20	31-Mar-19	31-Mar-18	31-Mar-17
Total Assets	1,12,224	91,437	84,738	81,293
Total Revenue	20,262	16,797	15,022	14,354
Profit After Tax	5,139	5,154	1,610	2,313

Issue Details

Mindspace REITs is coming out with its maiden book building process IPO having a combo of a fresh issue worth Rs. 1000 cr. and offer for sale worth Rs. 3500 crore making a total issue size of Rs. 4500 cr. It has fixed the price band of Rs. 274 - Rs. 275. It opens for subscription on 27.07.20 and will close on 29.07.20. Minimum application is to be made for 200 units and in multiples of 200 units thereon, thereafter. Post allotment units will be listed on BSE and NSE. The net proceeds from the fresh issue will be used for - Partial or full pre-payment or scheduled repayment of certain debt facilities of the Asset SPVs availed from banks/financial institutions (including any accrued interest and any applicable penalties/ premium) (Rs. 900 cr.), Purchase of NCRPS of MBPPL (Rs. 33.40 cr.) and the balance for General Purpose needs. Mindspace REITs has been assigned a corporate credit rating of 'Provisional CCR AAA/Stable' by CRISIL.

The company has already received Rs. 1125 cr. (40909000 units each at Rs. 275) worth application from strategic investors ahead of IPO in the month of June 2020 from the overall issue size. Thus the current issue will be for Rs. 3375 cr. (approx 12272723 units). The company has reserved 75% for institutional investors and 25% for non-institutional investors (i.e. retail investors). The issue constitutes 20.66% of the post issue units' base of the company.

There are 13 BRLMs to manage this issue process. They are Morgan Stanley India Co. Pvt. Ltd., Axis Capital Ltd., DSP Merrill Lynch (BofA Securities), Citigroup Global Markets India Pvt. Ltd., JM Financial Ltd., Kotak Mahindra Capital Co. Ltd., CLSA India Pvt. Ltd., Nomura Financial Advisory and Securities (India) Pvt. Ltd., UBS Securities India Pvt. Ltd., Ambit Capital Pvt. Ltd., HDFC Bank Ltd., IDFC Securities Ltd. and ICICI Securities Ltd.

Application Dates	Jul 27, 2020 – Jul 29, 2020
Issue Type	Book Built Issue FPO
Face Value	₹ per unit
IPO Price	₹274 to ₹275 per unit
Market Lot	200 Shares
Listing At	BSE, NSE
Issue Size	[.] units of ₹ (Up to ₹4,500.00 Cr)

Issue Timeline

Basis of Allotment Date	Aug 6, 2020
Initiation of Refunds	Aug 7, 2020
Credit of Shares to Demat Account	Aug 7, 2020
IPO Listing Date	Aug 12, 2020

Investment Strategy

The first REITs of Embassy Parks have managed to give around 8% distribution rewards so far. But now this sector is set for a litmus test as amidst COVID-19 pandemic many IT and service industry have opted for Work from Home (WFH) model. Although management claims that such a situation may not continue for long and hoping for revival which will lead to pushing in demand to keep social distancing at the workplace. Thus views on future prospects are divided among masses. Considering RISK FACTORS indicated by the company and prevalent uncertainties, cash surplus - risk savvy investors may consider investment at their own risk.