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India Real Estate Trust

"Brookfield India Real Estate Trust Call on Acquisition of Candor TechSpace N2"

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CHORUS CALL®

MANAGEMENT:	**MR. ANKUR GUPTA – MANAGING PARTNER, BROOKFIELD ASSET MANAGEMENT & DIRECTOR, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. ALOK AGGARWAL – CHIEF EXECUTIVE OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. SANJEEV KUMAR SHARMA – CHIEF FINANCIAL OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. RUHI GOSWAMI – COMPLIANCE OFFICER, BROOKFIELD REIT** **MR. ROHAN GHOSH – BROOKFIELD** **MR. RACHIT KOTHARI – BROOKFIELD**

Moderator: Ladies and gentlemen, good day and welcome to Brookfield India Real Estate India Trust Call on Acquisition of Candor TechSpace N2. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

On the call, we have the following persons:

Mr. Ankur Gupta – Managing Partner, Brookfield Asset Management and Director, Brookprop Management Services Private Limited, Mr. Alok Aggarwal – Chief Executive Officer, Brookprop Management Services Private Limited, Mr. Sanjeev Kumar Sharma – Chief Financial Officer, Brookprop Management Service Private Limited, Ms. Ruhi Goswami – Compliance Officer. We also have Mr. Rohan Ghosh and Mr. Rachit Kothari from Brookfield.

I now hand the conference over to Mr. Alok Aggarwal. Thank you and over to you, Sir.

Alok Aggarwal: Thank you for joining the call and good afternoon, everyone. On behalf of Brookfield REIT, season greetings to everyone and best wishes to all of you and your families. Before I talk about the acquisition of Candor TechSpace N2 by the REIT, I would like to talk about commercial real estate at present.

The commercial real estate market has definitely revived in the last three to four months and some of the salient features are:

We see a strong leasing momentum coupled by space take up from new and existing tenants. Tenants continue to hold space and pay rental as per contractual terms. We have continued to witness collections of (+99%) across our assets even during the pandemic and as the pandemic is receding.

IT companies continue to hire, expand and give guidance of double-digit growth for the next three to five years.

Occupancy in offices continues to climb. There will be a bit of uncertainty, we all are aware, with the new variant of the virus but fast pace of vaccination is going to minimize the impact and companies are agreeing that we have to learn to live with bit of the virus but vaccination is taking care of that.

Institutional investors like us are well-poised to garner high market share and we see a shift to quality in terms of developers as well as real estate.

With that, I am pleased to announce the exercise by Brookfield India REIT of its right to acquire N2 which is one of our two identified assets for Rs 3966 crores. N2 is a dominant and irreplaceable office campus located on the Noida Greater Noida Expressway and is in sector 135 which is fastest growing office micro market of Noida. The asset has excellent connectivity by road and the metro network and is surrounded by well-developed social infrastructure.

With 4.5 million square feet across 30 acres, N2 is the largest office park in Noida. This acquisition is likely to be complimentary to our N1 campus, establishing us as the largest office landlord in Noida. N2 has a best-in-class tenancy profile with over 90% of lease area being occupied by large multinational corporations such as Samsung, Sopra Steria, TELUS International and Qualcomm, primarily running technology led critical functions in the premises.

The property has been awarded BEE 5 Star Rating and is IGBC Certified Platinum Rating reflecting Brookfield’s commitment to sustainable practices. Property has a host of amenities like a creche, gymnasium, food court, restaurants, banks, and we continue to create more amenities as we move forward.

The campus has an established track record of expansion and consolidation by global tenants. In the last 5.5 years under the Brookfield group’s ownership, N2 has more than doubled both its operating and leased area. The asset continues to see strong demand from tenants even during the pandemic with more than 5 lakh square feet of leasing being achieved so far in financial year 2021-2022. We expect this demand to continue in the foreseeable future with another 3.5 lakh square feet of ongoing leasing discussions.

N2 is a significantly complete property with 3.6 million square feet of operating area comprising 90% of the asset value. Another 0.2 million square feet is poised for completion by the end of financial year 2022. N2 is also poised for strong organic growth with contractual escalation, attractive 15% mark-to-market potential and 0.8 million square feet of on-campus development potential with a weighted average lease expiry of 8.5 years and only 10% of the area expiring in next three years, the asset has high visibility into future cashflows.

The acquisition of N2 will help increase our scale in an accretive manner. With this acquisition, the operating area of the lease will increase by 35% to 18.6 million square feet and the gross asset value will increase by 34% to approximately 15,600 crores. Addition of N2 will reduce our top five tenant concentration in terms of gross contracted rental from 61% to 53%. With an effective tenant occupancy of 100%, the asset will be cash flow accretive resulting in a 3.9% NDCF accretion. The acquisition and related fund raising will be completed in accordance with the highest level of corporate governance and after approval from unit holders.

The acquisition price of the transaction is based on the agreed pricing methodology that is average of two independent valuers. A fairness opinion on this acquisition price has been obtained from Kotak Mahindra Capital.

I would now like to invite Sanjeev to provide financial updates of the transactions. Over to you Sanjeev.

Sanjeev Kumar Sharma: Thank you Alok. Good afternoon, everyone. As Alok briefed, with significant development completion and leasing traction achieved at Candor TechSpace N2, the asset is now significantly de-risked and ready to be acquired by Brookfield India REIT. As a result, the REIT has exercised its right to acquire N2 at a price of Rs. 3966 crore which is based on the average of two independent valuations as per the process described in the agreement to purchase.

The acquisition will be financed through a combination of a preferential issue of Rs. 950 crore and a debt of Rs. 2906 crore. This will make us the first Indian REIT to secure commitments from institutional investors for a preferential issue. Of these Rs. 950 crore preferential allotment, Rs. 495 crores will be raised from third party investors which are HDFC Life Insurance, HDFC Limited and State Bank of India. The balance Rs. 455 crores will be subscribed by the Brookfield group and post this acquisition, Brookfield group's unit holding will be 53.7% reiterating its long-term commitment to Brookfield India REIT and its growth. The acquisition will be further financed by low-cost debt of Rs. 2,906 crore.

Along with the acquisition, the REIT will also refinance its existing debt at a lower borrowing cost of 6.75% resulting in a proforma debt of Rs. 5,073 crores at an average cost of 6.76%. This will result in a total LTV of 32.5% post the acquisition which is in line with our stated guidance. This gearing will allow us to enhance unit holder value as well as keep sufficient debt headroom for future.

N2 is significantly de-risked with high cashflow visibility at an effective economic occupancy of 100% which is backed by an income support to be provided by the Brookfield group. This income support covers recently leased areas that are currently under rent free period, existing vacancies and tower 11A post its completion, till such areas become rent generating. The support will extend till March 2024 which will result in high cash flow visibility in the medium-term and provide sufficient headroom to lease up the balance available spaces in the campus.

The implied FY23 cap rate for the acquisition is 7.7% which is at a 120 basis points spreads to our current trading cap rate. With this, the acquisition is expected to result in 3.9% NDCF accretion to the REIT.

The acquisition will further enhance tax efficiency of our distributions and make it more appealing to a wider variety of investors. Post this acquisition, the tax-free component of NDCF is expected to rise to 50%+ from 33% in quarter 2 of FY22.

Thanks everyone and now I would like to hand over the call to the moderator and open the discussion for any questions.

Moderator: Thank you very much. We will now begin the question-and-answer question. The first question is from the line of Mr. Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Thanks for the opportunity. I had a few questions. Sir, firstly what we note is that over the last few quarters, N2 has witnessed healthy absorption and hence occupancy continues to remain high when we compare to other large office parks in the vicinity and also in placed rentals for the asset are relatively higher. So, in that context can you help us understand the reason behind the same and what Brookfield has been doing different over here?

Alok Aggarwal: Thank you, Amandeep, this is an interesting question. If you see, we always try to be different for most of our properties. If you look at N2, it is a campus style development at a fantastic location. So, that is a big plus and that is true for most of our properties. Second thing is what we have done in the last five years is we have raised the bar in terms of quality whether it is development, operations or tenant relationships. In the peak of pandemic, we delivered about 7 lakh square feet without delay and that was a platinum rated building designed by a foreign architect and 80% of the building is already leased. So, these things speak of our assets and we have been acquiring new tenants in this campus year on year and if you see the track record this campus has run on 100% occupancy for a couple of years and when new constructions came up that has dipped down the occupancy and then occupancy has gone up. So, we run N2 the way we run all our properties with strong corporate governance, strong focus on real estate, strong tenant relationships and strong services.

Amandeep Singh: Sure, sure. Thanks for this, that answers my question and secondly so the addition of N2 has led to reduction of concentration of the top tenants to around 67% versus 75% earlier. So, can you help us with your thoughts on how you plan to further reduce this if so and what could be the ideal top 10 tenant concentration for your portfolio?

Alok Aggarwal: See, this is the outcome. When we acquire N2, the concentration goes down. But we have stated in the past that our tenants like to grow with us and that is something we cannot help. When tenants grow two times, three times. They were in one campus in 2015 and now they are in three or four campuses. Tenants like to grow with us. We continue to broad base our REIT, acquire new properties which has been our stated objective, grow the REIT organically and inorganically and at the same time I must state that tenants will also continue to grow with us and we will continue to see some kind of a positive movement from the tenants but the answer is we will continue to acquire more and broad base our REIT. I think that is the right way to look at it.

Amandeep Singh: Sure, fair enough. And can you help us understand the rationale behind the sponsor providing the income support until March 2024, so this definitely gives comfort to the unit holders with respect to the asset stabilization but what could be the sponsors take here, any sense on that?

Sanjeev Kumar Sharma: Amandeep, first thing it is not that sponsor is providing this income support. This income support is negotiated by the REIT, otherwise if you go back to the original agreements to purchase there was no clause which gives this type of structure. So considering the current scenario, REIT has negotiated and made Brookfield group agree to give income support for two years and a quarter and which is a reasonably very good time because we are very confident that in the near future we will be having leasing done with reasonably good rate and we will be in high 90s or mid 90s occupancy very soon.

Moderator: Thank you very much. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: Sir, I have a couple of question. Sir, firstly the question is on this FY23 NOI whatever given projection. Sir, does that include, how much would come incrementally from the Samsung leasing and how much would come from rent support? Is there any breakup to that which you provide?

Ankur Gupta: Today to think about the rental support and it is a dynamic business for us and Samsung is one of the tenants, and I am glad that you pointed out. It is an amazing story of how a global giant is taking up space with us even during which was a pretty hard lockdown.

But besides Samsung, this is a 3.6 million square feet operating asset. Samsung is roughly 4 lakh square feet, slightly less than that. So, every tenant is important for us and the way to think about the rental support is it is a balance number to the extent that the tenant occupancy is not up to 100% or effective 100%, the balance will be driven by the rental support. So FY23 probably will have a slightly higher rental support and that will reduce as rent-free burn off for new tenants and as other new tenants are signed. So roughly the way to think about the $20 million is an outer limit, probably more loaded towards the first year between $7 to $8 million and that will wane-off or if there is more requirement the total amount is pretty significant which is 20 million dollars so that is how I will think about this calculus here.

Adhidev Chattopadhyay: Okay, Ankur, just to understand correctly actually my question was so these 290 crores is a given thing with the rent support come what may, right? Is that the correct understanding?

Ankur Gupta: Come what may meaning to the extent it is required. If it is running at 100%, it is not required, so it would not be availed. This is something which is a very important support given the times we are living in, although this asset has very high occupancy as part of the entire package, the entire group is firmly behind ensuring that in case there is any period or two in the next two years, where our business plan is either extended by a couple of quarters or things like that given the uncertainty that we are living in.

Sanjeev Kumar Sharma: Just to answer your question on the Samsung it is about 7.5 crore per quarter NOI which is coming from Samsung base.

Adhidev Chattopadhyay: And just second question is on the post issue the debt at SPV and so we are raising around 2,900 crores odd of debt, so how much would remain at REIT and how much be downstream to the SPVs around 2,000 crores is my understanding correct?

Sanjeev Kumar Sharma: Everything will be at the SPV level. REIT is not taking any debt at its level. So it is the existing SPV which are taking certain debt and it will be upstream to the REIT to pay the part consideration to the seller and the balance will go down to the N2 to reduce the existing debt of N2.

Adhidev Chattopadhyay: Just to check up 2,000 odd crores is the extended debt which would remain at the SPV level post this transaction?

Sanjeev Kumar Sharma: Around Rs. 1,405 crores will remain at N2 level. The 2,000 crore is the current debt level pre acquisition at N2.

Adhidev Chattopadhyay: And how would typically money be upstream to the REIT just a broader understanding?

Sanjeev Kumar Sharma: It will be through repayment of the existing shareholder loan which REIT has given to the existing SPVs.

Adhidev Chattopadhyay: And that is why the percentage mix is changing overall to 50% on the taxing front?

Sanjeev Kumar Sharma: Yes you are right.

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

Venkat Samala: So my first question would be I just wanted to understand why was higher equity raise not really considered during this process because now our average levels are quite high. I understand that we are running below the regulatory cap of 49%, but it is considerably higher as compared to the other REITs and what an open equity raise compared to the pref allotment to the shareholders and open equity raise persists should not that have been followed which would have allowed a better price discovery of the assets given the limited institutional shareholding in the rates generally what is your thoughts on this?

Ankur Gupta: From a board perspective we consider all options. We have always stated roughly 30% LTV or thereabout loan to value as long as the debt is structured appropriately; we are maintaining a AAA rating here, is a comfortable level for us now yes we are probably at the 32% level here and that is again one-third to two-third Debt Equity Ratio which is very comfortable for us. To answer your question about why not a bigger equity raise, equity raise is about the requirement of capital and we believe that running a prudent capital structure and the right quantity of equity raise will be the way we operate this business going forward. Regulatory wise QIP is only allowed after a year of listing. Given the strong performance in our businesses as well as in the market represented by a strong performance of our REIT unit prices on the listed exchanges. We believe that our business continues to grow organically it will result in reduction in the overall LTV levels as the leasing picks up and if the REIT needs to scale up to further acquire assets we will look to tap in public markets in due course of time. So all options have been considered and all options will be considered to run an efficient capital structure for the REIT.

Venkat Samala: And the second question would you rather have not considered the income support that you are providing from the sponsor and apply the cap rate on whatever NOI projections you have made for FY23 because that would have allowed the unit holders to gain value meaningfully whenever the lease up happens because obviously you are confident the shareholders are confident on the commercial asset story and that is why they are participating through this REIT so by applying the cap rate on income support you essentially have not allowed participation while the lease up really happens, so what is your present take around it?

Ankur Gupta: I do not fully agree with that. I will give you simple example; if you have 50% leased building, you do not value the building based on a cap rate on next year on a 50% leased property. So by assuming that the value of building is just the capitalized income formula maybe an assumption, but we certainly do not believe the fair value of an asset can be attributed by that the formula always. The REIT call option is at a fair market value done by two valuers. So, I think incrementally all unit holders are better off having the income support which is accretive on all parameters in terms of accretion, in terms of distribution, in terms of capital structure and increasing the size of the REIT on all parameters. I think the income support is a good thing rather than a bad thing.

Venkat Samala: And just following up on this valuation obviously now the independent valuers have valued around 39.5 billion and we are acquiring at around 3% discount, but Brookfield REIT itself is trading at around 10% discount to what the independent valuers have valued the entire REIT assets, so do not you think by this the discount is actually narrowing and to that extent it is not accretive?

Ankur Gupta: Maybe I will have my colleague answer this question, but this is asset pricing and comparing net asset value by gross asset value; also we are also not considering transaction cost involved which in this case is zero or almost zero; we are also not attributing the quality of the assets on all parameters as I said is transaction accretive just comparing gross value versus gross value may not be the only parameters to be considered.

Rachit Kothari: If I may just add Venkat basically this transaction is being performed in accordance with the contracts that REIT has signed at the time of IPO and is prescribed for this average of fair market value. Now if you see from the higher fair market value this average is of course at a discount. Having said that the stock price at which the stock is being issued as you said is very close to the market price where it is trading today. So everything kept in mind it is still turning out to be accretive.

Venkat Samala: The reason that I am raising this issue is because even when I look at the cap rate including the income support that is 7.7 which is meaningfully lower than whatever secondary transactions have happened including embassy REIT and this is mentioned in the valuation report that you have attached and at the same time the cap rate that the independent valuers both these independent valuer have used is 8%. So 7.7% implies cap rate definitely seems to be on the higher side as per my understanding.

Ankur Gupta: 7.7% is next year cap rate and is not stabilized cap rate. When valuers ascribe a cap rate they take a 5 year or 10-year DCF and apply terminal cap rate. We would not be in a position to comment upon private transactions because we don't know.

Venkat Samala: No that is the reason because one of your peers have acquired another asset which generally the perception is the quality of that asset is much better and that is the reason I am telling it and that happened at 8% cap rate and that is one year forward that I am talking forward. So I understand that you may not want to comment on it whatever has happened with some of the other companies, but I just wanted to raise this issue so that you know you take this into consideration for whatever future transactions happened right.

Ankur Gupta: So as Rachit said this transaction has been done keeping in mind the contractual provision that has been there with the REIT; on all parameters the transaction is significantly accretive to the REIT including dividend distribution, quality of dividend and the quality of the asset.

Moderator: Thank you very much. The next question is from the line of Karan Porwal from Morgan Stanley. Please go ahead.

Karan Porwal: My question is more around the income support mechanism just wanted to know can you just help with the numbers which you just quoted what would be the quantum of the support?

Sanjeev Kumar Sharma: Karan it on whatever is the vacant area as of today the income support is towards there and whatever is rented in the recent past where rent free is still on the support will be to cover that rent free period and there is another tower which is under construction as of now, tower 11A, which is expected to be completed by March 22. So once it gets completed, the rental support will continue to be given on the area coming out of that construction. As far as amount is concerned as of today if we take today's number it is about 19.5 crore per quarter, but as Ankur mentioned in earlier answer also more the leasing happens this rental support will continue to reduce to that extent and we are very hopeful that in 2022 we will be achieving a high number of leasing.

Karan Porwal: In the coming quarter Q4 we expect a number of around 19.5 crore to be registered to be accounted for?

Sanjeev Kumar Sharma: Yes Q4 of financial year.

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

Adhidev Chattopadhyay: Just my question was on the future develop anywhere around 0.8 million square feet now considering current demand trend as you said there is some improvement you are seeing in the overall market from next year, so any timeline when you begin construction of the new properties which you would like to share with us?

Alok Aggarwal: We are confident we should be able to lease the balance area in next couple of quarters and as soon as we achieve the significant leasing we should be able to start. I think some time towards latter half of next year we should be able to start the construction and we are also working to get some built to suit commitments to T-12 tower and we would like to have some commitments in terms of leasing while we start the construction.

Adhidev Chattopadhyay: And sir just a follow up in terms of the leverage so the leverage would go up further from here like how should we look at it because of the fresh CAPEX there overall as a REIT?

Sanjeev Kumar Sharma: So as of today, post-acquisition we are expecting or the numbers are there in PPT also it is 32.5% LTV will be there and once this construction will start it depends upon what is the size of the REIT and the valuation of the REIT which will be much bigger than the current value. So the LTV should remain within our stated guidance of around 35% or below 35%.

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

Manish Aggarwal: My question would be pertaining to the corporate tax rate so currently whatever tax rate you are paying going forward is it expected to be neutral and how exactly will it happen?

Sanjeev Kumar Sharma: You are talking about the tax rate or taxable component.

Manish Aggarwal: No not the NDCF part, but the actual tax outgo from the P&L.

Sanjeev Kumar Sharma: It is going to be nothing because as of today also after considering the interest component on the shareholder loan SPVs are just at below the taxable income and we expect in near future also even after having N2 into the REIT going with the same position more or less.

Rachit Kothari It is basically helped by carry forward losses and unabsorbed appreciation from the past period.

Manish Aggarwal: And this asset also has carry forward losses?

Sanjeev Kumar Sharma: Yes Manish.

Manish Aggarwal: So for the next two, three years the tax outflow will be negligible?

Sanjeev Kumar Sharma: Yes, it will be negligible.

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

Sameer Baisiwala: A quick question if I were to assume that your 3.8 million square foot is fully completed and fully leased at current rental rate of Rs. 52 per square foot per month then your rental income which is sort of proxy NOI works out to 240 crores so just wanted to check what is the bridge between 240 crores if it was pure rental income at this rate versus 290 crores that you have assumed for fiscal 23 in your assumption?

Sanjeev Kumar Sharma: As of today, average rent is 53 and it is not the overall rent. The current market rent is about Rs. 60. So whatever future leasing is to be assumed to be assumed (+60) escalations and even the current leased-up area also has escalation clauses which gives around 5% of escalation every year.

Rachit Kothari: And also, Sameer the CAM margins right these properties have a pretty healthy CAM margins because they are on 24/7 models for most part. So we cannot just look at the rental in isolation or there are other economics by virtue of providing common area maintenance services like the other properties so everything put together it is in the 294 crore number that you see for financial year 23.

Sameer Baisiwala: So this is a sustainable number beyond fiscal 23 and there is no one off assumed in this year?

Sanjeev Kumar Sharma: There is nothing one off rather as I mentioned the contracts have escalation clauses so it will be going up every year.

Moderator: Thank you. The next question is from the line of Sumit Kumar from Max Life Insurance. Please go ahead.

Sumit Kumar: What is the calculation basis for the income support is it on a per square feet basis or is it on a certain NDFC number?

Sanjeev Kumar Sharma: Sumit it is per square feet basis the current market rate which we have taken in our business plan of this asset plus the CAM income which based vacant area should earn adding that comes to this income support.

Sumit Kumar: So what would that number be on a ballpark basis?

Sanjeev Kumar Sharma: Per square feet it is coming around Rs. 72 - the rent plus the CAM loss which is going to happen till the time it remained vacant.

Moderator: Thank you very much. Ladies and gentlemen I now hand the conference over to Mr. Alok Aggarwal for closing comments.

Alok Aggarwal: Thank you everyone for your participation. Hope we have been able to answer all your questions. We look forward to your continued support as we worked to further grow the REIT portfolio starting with the execution of N2. We wish everyone a great festival season and a happy New Year. 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.