"Brookfield India Real Estate Trust Q1 FY '25 Earnings Conference Call"

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MANAGEMENT:	**MR. ALOK AGGARWAL, CEO AND MD, MR. ANKIT GUPTA – PRESIDENT, MR. AMIT JAIN – CHIEF FINANCIAL OFFICER, BROOKPROP MANAGEMENT SERVICES PRIVATE LIMITED** **MR. RACHIT KOTHARI, MR. SHAILENDRA SABHNANI – BROOKFIELD**

Moderator: Ladies and gentlemen, good day and welcome to the Brookfield India Real Estate Trust Q1 FY '25 Earnings Conference Call.

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

On the call, we have the following persons:

Mr. Alok Aggarwal – CEO and MD, Mr. Ankit Gupta – President and Mr. Amit Jain – CFO of Brookprop Management Services Private Limited and Mr. Rachit Kothari and Mr. Shailendra Sabhnani from Brookfield.

I now hand the conference over to the management for opening remarks. Thank you, and over to you, sir.

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

Let me start with a brief overview of the Indian office market. The Indian office market continued to see strong demand in the quarter gone by, especially for high quality commercial spaces. Gross leasing is tracking at a quarterly run rate of about 18 million square feet, an increase of almost 45% over the same quarter last year. This demand is being driven by both domestic and global corporations as well as GCCs who continue to expand their footprint in India.

The SEZ reforms have been a significant positive development for the industry and for our REIT. We have already applied for the conversion of 1.5 million square feet of SEZ space to non-processing area across our SEZ campuses. This includes 0.6 million square feet at K1, which has already been converted and leased to HDFC Bank; 0.4 million square feet at G2 and N2 for which we have in-principle approvals and which should get converted soon; and 0.5 million square feet at G1, conversion of which we applied for during this quarter.

These conversions should help attract a wider segment of tenants to our campus and we already have a strong pipeline of prospective tenants with a space to be converted across all our campuses.

Also, the recent announcements in the budget reducing the holding period for the long-term capital gains from 36 to 12 months for REITs is a positive development and should boost investor appeal for REITs.

We are pleased to inform that we have completed the acquisition of the 50% stake in North Commercial Portfolio from Bharti Group in June, having discharged the equity consideration of Rs. 12.3 billion through a preferential issuance at Rs. 300 per unit, at an 18.5% premium to the floor price. The transaction has added modern assets with marquee front office tenancy to our portfolio, expanding our operating area by 3.3 million square feet. The transaction is both NAV and NDCF accretive.

This transaction, along with the recent acquisitions of Downtown Powai and Candor TechSpace G1, is in line with our stated strategy of adding accretive assets to the REIT, and forms one of the key pillars of growth for our REIT.

Let me now invite Ankit to take you through the key highlights for this quarter.

Ankit Gupta: Thank you, Alok, and a very good afternoon, everyone.

Let me touch upon our leasing performance during the last few quarters. As compared to our new leasing guidance of 2.0 to 2.4 million square feet for 5 quarters from January 2024 till March 2025, we have already achieved 50%, that is 1.1 million square feet in the last two quarters, leading to our occupancy increasing by 400 basis points from 80% in December 2023 to 84% in June 2024.

We achieved a gross leasing of 242,000 square feet in Q1 2025 with the signed rentals at Rs. 135 per square foot versus the in-place rent of Rs. 94 per square foot. This has been possible due to strong demand for our high rental assets, with demand from other assets to follow in the subsequent quarters. The tenants that have been signed in the last quarter include Amdocs, Landis Gyr, Loccioni and Mercer amongst others.

As mentioned earlier, we have also received the approval for conversion of 0.6 million square feet SEZ area to non-processing area at K1 in the last quarter, which has been completely leased to HDFC bank. The leasing transaction at our assets has been driven by strong demand from both SEZ tenants as well as non-SEZ tenants, such as HDFC bank. We continue to have a robust pipeline of 3.0 million square feet for both these sets of tenants.

With sequential occupancy improvement in the last three quarters, we have seen an increase in the same-store NOI by 17% over the last 9 months. This was also supported by the contractual escalations as well as the spreads achieved on re-leasing and renewals. We have achieved an 11.1% average escalation on 1.5 million square feet during the quarter and 13% re-leasing spreads.

Building on our leasing performance from the previous quarters and with the acquisition of the North Commercial Portfolio, we have updated our new leasing guidance for FY 2025 to 1.5 to 2.0 million square feet. We have a relatively low expiry load in FY 2025 with 0.6 million square feet of expected exits and 0.8 million square feet of expected renewals. Given our strong leasing guidance and the low expiry load, we expect a sustained improvement in net leasing and therefore, our occupancy. We are guiding for an exit occupancy of 87% to 89% by March 2025.

Backed by the continued strong leasing traction expected in FY 2025, we are giving a distribution guidance of Rs. 18.50 +/- 0.25 per unit for the year. Our distributions will be in line with the recently announced SEBI NDCF regulations.

For our ongoing 0.6 million square feet mixed-use development at K1, we have received recognition for our use of sustainable materials and processes. We have received the 'Pre-certified Platinum' IGBC Green New Building Rating in June 2024 and the 'International Safety Award' from the British Safety Council in April 2024.

At our Noida assets, our green energy transition is progressing smoothly. We have already achieved our phase 1 goal of meeting 40% of tenant energy requirements through renewable energy, leading to a reduction of carbon emissions by 11,000 MT annually. Our target is to achieve 100% transition by 2027 or sooner.

Now I would like to invite Amit to provide the financial updates.

Amit Jain: Thank you, Ankit. Good afternoon, everyone.

As Alok mentioned, we have successfully consummated the acquisition of the North Commercial Portfolio in the June quarter. With this transaction, we welcome the Bharti Group as a cornerstone investor in Brookfield India REIT with an 8.5% stake held by them.

Please note that the North Commercial Portfolio is accounted for using the equity method of accounting wherein we pick up our share in the profit and loss of the investee company instead of doing line-by-line consolidation.

We have witnessed a growth in our operating lease rentals to Rs. 420 crore, 4% higher QoQ compared to Rs. 405 crore in the previous quarter and 99% higher YoY compared to Rs. 211 crore in the same period last year.

The adjusted NOI for Q1 FY 2025 is at Rs. 475 crore, 3% higher QoQ compared to Rs. 461 crore in the previous quarter, and 94% higher YoY, compared to Rs. 245 crore in the same period last year. The YoY growth has primarily been driven by the acquisitions of Downtown Powai and Candor TechSpace G1.

We have achieved an NDCF of Rs. 217 crore this quarter, which translates to Rs. 4.52 per unit, and we are distributing Rs. 4.50 per unit this quarter. We are pleased to highlight that the dividend component of the distribution has increased from nil to 11% this quarter. This increase in the dividend component is driven by the acquisition of the North Commercial Portfolio and the implementation of capital reduction scheme in Candor TechSpace N1. On account of the capital reduction schemes in Candor TechSpace K1 and Downtown Powai (SEZ), the dividend component is expected to improve further to 20% to 25% over the next four to six quarters.

Our current adjusted NOI run rate including the North Commercial portfolio is Rs. 2,408 crore on an annualized basis. We continue to have significant organic growth potential of over Rs. 250 crores in our portfolio, which can be achieved through the lease up of vacant areas and margin recovery.

We continue to maintain a dual AAA rating from ICRA and CRISIL on the back of our strong balance sheet, a long-dated maturity profile and limited amortizations over the next few years. Majority of our loans are linked to the repo rate, which will benefit us as the benchmark rates begin to trend lower.

With that, I would request the moderator to open the floor for Q&A.

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

Puneet Gulati: Congrats on decent performance. My first question is with respect to your guidance of Rs 18.50 of DPU. Can you also talk a bit where will it originate from? What is the NOI you are building in and what are the cash flows you are building it? Just to get a sense of how much can potentially come from the newer deposits and how much from just pure income growth?

Ankit Gupta: Sorry, Puneet, can you just repeat the question once.

Puneet Gulati: So, I just wanted to understand the assumptions behind Rs 18.50 DPU in terms of what would be your assumptions on NOI and cash flow from operations.

Ankit Gupta: I would basically break this into two parts. One, as you have seen with the leasing already done and the three quarters of increase in our overall occupancy, that in itself is providing us for a solid base as we are today in terms of our distributable income. Along with that, as we have given a leasing guidance over the next year, we expect our occupancy also to go up from the 84% currently to 87% to 89% and that performance will also give us the cash flow from operations to be able to achieve this distribution that we are giving guidance on.

Puneet Gulati: Any numbers you can share on the NOI part that is needed for Rs 18.5 of DPU?

Rachit Kothari: Basically what we are clocking right now, if you just take Bharti assets at 100% share, is about Rs. 2,400 crores. At this point in time, we have a vacancy of give or take about 3.5 million square feet. What we are saying is that we will do about 1/3rd of that pick-up from 84% to 100% occupancy in this financial year, which is in total about Rs. 250 crores of NOI increase. So, we will see Rs. 80 crores of incremental NOI or Rs. 20 crores of incremental quarterly NOI flow through by the end of the year in the NOI numbers. On a full-year basis, this will be a distributed impact because bulk of this leasing is going to be in the second half of the year. Does that answer your question?

Puneet Gulati: Partly, I will take it separately as well. But just on the CAM side also, we are seeing an increase in CAM charges. Is it to do with part incorporation of Bharti's portfolio as well or is it just higher utilization rates?

Amit Jain: This is broadly a seasonal impact. The power and fuel cost for the current quarter was higher as compared to the last quarter, but that's a pass through cost to the tenant. There were additional repair and maintenance charges that were incurred - again a pass through. But to answer your question, the primary contribution is of the fuel and power cost because of the seasonal impact.

Puneet Gulati: Understood. So, Rs. 153 crore is not the normal, Rs. 130 odd crore is what one should take typically on a quarterly basis?

Ankit Gupta: Sorry, where are you getting the Rs. 130 crores from?

Puneet Gulati: Over the last two quarters you were at Rs 138, Rs 131 crore. It jumped to Rs 153 crore. So, just wondering.

Ankit Gupta: Like Amit mentioned these are due to seasonal impact, so the number will land somewhere in between as an average for the full year.

Puneet Gulati: And can you also comment upon what kind of underlying market rental growth you are seeing for your portfolio?

Alok Aggarwal: I will take this asset wise. If we see Kolkata, we are showing occupancy at around 90% but HDFC Bank has taken the entire converted space and right now it's fully leased out and there are two elements to that. One is non-SEZ, and one is the SEZ. Now in non-SEZ, what we have de-notified we have leased at almost about Rs. 55 per square feet, which is about 18% more than our in-place rent, but because now our vacancy is very limited, we are also confident that even SEZ rentals should be around that number. Now whether it's 18% or 16%, that's a matter of debate, but broadly around Rs 55. So almost 18% to 20% increase has happened in Kolkata and we are confident of maintaining that.

Then when we come to Noida, N1 / N2, we are able to get about mid-60s to mid-70s kind of rentals. Rentals have been flat from last two quarters, but that’s also because we had a strong run up in last one year. In N1, rents from Rs 50 became Rs 65, at N2 again Rs 55 became Rs 65, so rents are consolidating at that level. At N1 there's no vacancy, and at N2, as our occupancies move up, we are confident of being able to push the rentals also higher.

Then if you talk about Powai, depending on which building we are talking about, we are hovering between Rs 150 to even Rs 180-185, depending on which building, how much space the tenant is taking. But whether there’s growth right now, I would say it's flat, but I think we are consolidating.

In Gurgaon, if we take G1 and G2 again, we will see the growth as occupancies move towards mid-85% to 90%. That is the time we should see the growth. Right now, rents are consolidating at early 80s to mid-80s in G1 and early 90s to mid-90s in G2, but you would appreciate more growth would come when occupancies reach around late 80s or early 90s.

Puneet Gulati: For the Worldmark, etc., should one assume the last updated market rental which was disclosed in the earlier presentation as the same number?

Alok Aggarwal: Worldmark, we are at around Rs. 220 to Rs. 225 with a 5% annual growth. Again, in Gurgaon we should keep getting 5% growth. Actually, I am seeing 4% to 6% growth would keep happening since the occupancies are above 90%, so not difficult to at least get 4% to 6% rental growth.

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

Kunal: My first question again with the same goal of trying to get to what NOI could look like for the full year. I just want to check this updated leasing guidance of 1.5 million to 2 million square feet. Is that all organic or does it include Worldmark as well?

Rachit Kothari: So the distribution for this quarter includes the impact of a little bit more than Rs 100 crores NOI run rate from Worldmark.

Kunal: I was actually checking on the leasing guidance that you've put out 1.5 million to 2 million.

Ankit Gupta: That includes the entire portfolio like I mentioned, the 1.5 million to 2 million square feet is for the full year, and it includes the Worldmark portfolio as well.

Kunal: I think you are just about one year shy now after rental support in G1 sort of coming to maturity. Generally, what are your thoughts or visibility on trying to replenish some of that?

Alok Aggarwal: If you really see at G1, we are seeing good leasing traction. We are hopeful, while the numbers have to be worked out, that our occupancy should move up in a good measure by end of this year. But if you really see what is going to happen is our escalations will increase our NOI which is going to more than offset if there's a shortfall, which may happen let's say from Q1 in 2025 Calendar Year.

Rachit Kothari: And if I may just add to that, our share of that income support is about Rs 70 crores a year to the REIT, so that's about 140 paisa of DPU on an annual basis that's coming from that income support. As Alok said, I think we should be able to fairly offset it with one year of escalation which flows to our portfolio NOI, which is about Rs. 85 crores on a 5% basis. We should be able to more than offset it as our rents grow and leasing is on top of that.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

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

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