Brookfield
India Real Estate Trust

"Brookfield India Real Estate Trust Q3 FY'25 Earnings Conference Call"

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Brookfield
India Real Estate Trust

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Brookfield India Real Estate Trust Q3 FY'25 Earnings Conference call.

As a reminder, all participants' lines will be in the listen-only mode until the floor is opened 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.

We have with us on the call today, Mr. Alok Aggarwal – CEO and M.D., Mr. Ankit Gupta – President and Mr. Amit Jain – CFO of Brookprop Management Services Private Limited, Mr. Rachit Kothari and Mr. Shailendra Sabhnani from Brookfield.

I now hand the conference over to the Management Team. Thank you. And over to you, sir.

Alok Aggarwal: Good afternoon, everyone. This is Alok. 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 by giving an Update on Office markets in India. The India office market witnessed a significant momentum in leasing activity in the year 2024, cementing India's reputation as the office to the world.

Across the top eight cities, gross leasing activity hit an all-time high of 89 million square feet for the calendar year, underscoring the robust demand for high quality office spaces.

We believe that demand for Grade A office spaces will remain strong in 2025 as well. This optimism is driven by sustained revenue growth among IT companies and growth of GCCs in India. Notably, GCCs accounted for over 30% of total space take-up in 2024, with both new entrants setting up global hubs and existing firms scaling up their operations.

With a rising focus on AI, emerging technologies, engineering and R&D, headcounts across organizations are expected to grow further and this growth, combined with the continued "back to office" trend, augurs well for higher space absorption in year 2025 as well.

Turning to Brookfield India REIT, I am delighted to report another outstanding year of growth and fantastic last quarter.

For the second consecutive quarter, we achieved over one million square feet of gross leasing, reflecting strong demand for our premium, Grade A office assets and office campuses.

Our committed occupancy has increased by approximately 770 basis points over the past 12 months, crossing 87%. Importantly, we have already achieved the lower end of our stated occupancy guidance for the Financial Year 2025, three months ahead of schedule. With robust market demand, we are confident of further improving the occupancy levels in Financial Year 2025.

Additionally, we successfully completed a Rs.35 billion QIP fundraise this quarter, which was oversubscribed by 1.5 times. This resounding support from institutional investors reaffirms investor confidence in our high-quality portfolio and strengthens our ability to pursue strategic growth opportunities.

Looking ahead, we expect leasing momentum to remain strong in 2025. With a dual offering of SEZ and non-SEZ spaces, we are well positioned to attract a diverse tenant base and accelerate our journey towards higher occupancy.

Let me now invite Ankit to take you through details on “Key Highlights for the Quarter.”

Ankit Gupta: Thank you, Alok. Good afternoon, everyone.

As Alok mentioned, we successfully closed Rs.35 billion QIP in the previous quarter and the QIP issue saw strong demand from marquee long-term investors like IFC, LIC, SBI Mutual Fund, ICICI Prudential Mutual Fund amongst others. In fact, this is the first ever equity investment by both IFC and LIC in any REIT in India. The commitment by these reputed long-term institutional investors is a testament of our high-quality portfolio and positive business outlook.

As a result of the QIP, our LTV has gone down from 35% to approx. 25%, which gives us enough headroom to pursue strategic inorganic growth opportunities.

We are in conversations with our sponsor group to evaluate acquisition opportunities in Bangalore, spanning 9.5 million square feet of assets.

We continue to deliver on our stated leasing guidance, and we have registered the fourth consecutive quarter of upward movement in occupancy, crossing 87%. This quarter we delivered 1.1 million square feet of gross leasing, marking the second consecutive quarter of achieving 1 million square feet in gross leasing.

Some of the key large wins for us this quarter are Capgemini - 2,40K square feet, Teleperformance - 1,25K square feet, and General Mills - 77K square feet amongst others.

Interestingly, all these tenants have expanded their footprints in the REIT portfolio (Capgemini and Teleperformance growing their footprint by around 70% each to 5,80K and 3,06K square feet respectively and General Mills increasing their space by 53% to 2,20K square feet). And this speaks volumes about the stickiness of these large tenants in our high-quality assets.

There is strong demand revival in our SEZ portfolio with occupancy growing from 76% to 83%, a 7% growth in the past 12-months. The conversion of SEZ spaces to NPA has further boosted the leasing in these properties. We have achieved gross leasing of around 2 million square feet in the past 12 months in our SEZ properties, of which about 40%, i.e. c.0.8 million square feet, has been in the NPA spaces.

This quarter, we converted an additional 0.7 million square feet of space to NPA (0.5 million square feet in G1 and 0.2 million square feet in N2).

With a robust leasing pipeline of 3.7 million square feet across our SEZ properties, we are confident of continued occupancy growth in our SEZ properties in 2025.

With sequential occupancy improvement in the last four quarters, we have seen an increase in the same-store NOI growth by 17% over the last 12-months. This was also supported by the contractual escalations as well as the spreads achieved on re-leasing and renewals. We achieved an average 8% escalation on 1.6 million square feet during the quarter and 17% re-leasing spread.

On the ESG front, we continue to make significant strides towards our net zero carbon goals by 2040 or sooner. Currently, over 40% of our total energy requirement at our Delhi NCR campuses is sourced from renewable energy, and we are on track to achieve 100% green power across all campuses by 2027.

In recognition of our efforts, we received the Golden Peacock Award for ESG in 2024, and five of our assets, G1, G2, N1, N2 and K1, earned 5 star ratings and the Sword of Honor from the British Safety Council.

Now, I would like to invite Amit to provide the "Financial Updates."

Amit Jain: Thank you, Ankit, and good afternoon, everyone.

Our operating lease rentals have grown to Rs.443 crores in Q3 FY2025, 4% higher QoQ compared to Rs.426 crores in the previous quarter, and 13% higher YoY compared to Rs.393 crores in the same period last year.

The adjusted NOI for Q3 FY'25 is at Rs.504 crores, 4% higher QoQ compared to Rs.486 crores in the previous quarter, and 11% higher YoY, compared to Rs.453 crores in the same period last year. The YoY growth is primarily on account of new leasing, renewals and contractual escalations.

We are distributing Rs.4.90 per unit this quarter, translating to a total distribution of Rs.298 crores. For nine months in FY2025, the total DPU number is at Rs.14.

In the short term, the proceeds that we raised through QIP, would be utilized towards reducing debt in the portfolio as stated in use of proceeds of QIP, thereby creating LTV headroom which can be utilized for strategic inorganic growth. Reduction in debt in the short-term would increase the total distribution to unit holders on an absolute basis due to reduced interest burden on the debt.

Based on our current run rate of NOI on an annualized basis, we would have total NOI of approximately Rs.1,800 crores. This takes into account 50% NOI from assets where we have 50% economic interest. Steady leasing recovery can drive approximately 16% growth in our NOI run rate. This coupled with a reduction in the interest burden due to debt repayment from QIP proceeds shall lead to approx. 25% growth in distributions. This would translate to a distribution per unit on a stabilized basis of Rs.24.7, without accounting for any impact on account of rent growth, contractual escalation, MTM and changes in the interest rates.

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. A 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. Anyone who wishes to ask questions may press "*" and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask questions, please press "*" and "1". The first question is from Puneet from HSBC. Please go ahead.

Puneet: Yes, thank you so much and congratulations on good progress on occupancies. My first question is if you can talk a bit about the NOI margin. We have seen a bit of improvement on the QoQ side, YoY side. What's driving this and how far do you expect this to go from current levels?

Alok Aggarwal: There is scope on having an upside in NOI margins from current levels of 106-107%. As more and more people come back to offices, there's a possibility that, the CAM models of these tenants would move from 12/6 to 24/7 and then margins could improve. I think historically, we have seen NOI margins of 109-110%. So, even though we are currently at 106% NOI margin levels there is a possibility of upside of 3-4% in this as more and more people come back to offices and tenants move to higher CAM models in our properties..

Puneet: Understood. Secondly, there seems to be improvement in the dividend from the North commercial portfolio. What's driving this and is that the consistent level?

Amit Jain: For this quarter we have received certain income tax refunds in the North commercial portfolio that is contributing to a higher dividend. You can't predict which quarter we will get these refunds as such and these refunds typically remains lumpy in nature. For this quarter, that was the reason for increasing dividends from our North commercial portfolio. However, like we had mentioned in our earlier quarters, the dividend component in our distributions are expected to reach around 20% over the end of the next year,

Puneet: And lastly on the DPU walk down, would it be fair to say that some bit of equity raise, or a bit of adjustment, etc., has also been used to pay out DPU or is coming from operational, if you can elaborate a bit on the walk down part?

Amit Jain: No proceeds from capital raise has been used for the distribution to unit holders. Going forward, once we utilize the QIP proceeds to repay debt, the interest savings will contribute to increase in absolute amount of DPU in quarters to come.

Puneet: Because when I look at the gap from cash flow from operations to the gap between the NDCF REIT, it's about Rs. 40 crores more. So, some of it, in fact, interest, etc. would have gone up, CAPEX has gone up, but you can fund CAPEX by debt. So, where is the balance coming from?

Amit Jain: It is primarily tax refunds in the North Commercial Portfolio. As we said earlier that is a lumpy part in the current quarter that is contributing to DPU.

Shailendra Sabhnani : So, Puneet, if I may add, the NDCF generation this quarter on an undiluted basis is 4.80, 4.90 and Amit can add the exact number per unit. Add on to that, the tax refunds that have come in, in the December quarter. Also add on to that, the impact of the expanded capital base. That basically gets to the 4.96 that we have generated and 4.90 that we have distributed. That's the way to probably read it. Incrementally, in the next quarter, we will have till such time we do the next acquisition, the interest savings will further contribute to DPU and replace some of one time inflows what we have seen in the last quarter.

Puneet: So, what I am trying to understand is if I look at broadly on cash flow operations basis, you have got Rs. 30 crores more. Extra dividend is about 40. So, that's okay, Rs, 70 crores of the addition, you're saying. So how it has come?

Rachit Kothari: So Puneet, I will just break it down for you. If you just look at the NDCF SPV level line, it generated about Rs. 11 crores more just at the NDCF level, right, without North-Commercial Portfolio. North Commercial Portfolio has generated about Rs. 45 crores more than the last quarter because of tax refunds. So, that's 10 plus 45, that's 55. And if you see the line, the cash retained at SPV level. Last quarter we retained about Rs. 16 crores at the SPV level that did not get reported in our NDCF. This quarter we have not retained that much. We have only retained Rs. 3 crores. So, add another 13 on it. So, you are 10 plus 45 plus 13. That adds up to Rs. 70 crores.

Puneet: Understood. That is helpful. Thank you so much.

Moderator: Thank you. Next question is from Jatin from Bank of America. Please go ahead. Jatin, we can barely hear you. If you could maybe speak a little louder or closer to the mic?

Jatin: Can you hear me now?

Moderator: Yes, much better. Please go ahead.

Jatin: Yes, thanks for the opportunity. So, just to your point on the Bengaluru opportunity, what's the plan here? Are we looking at phase-wise acquisition? Or is there a plan to go for the acquisition all at once? That's number one. And second, you have been very consistent on your inorganic additions. So, beyond this Bengaluru portfolio, are there any other opportunities that you're evaluating maybe outside the sponsor portfolio?

Rachit Kothari: Look, I think our sponsor group owns a large portfolio and a large part of it which doesn't sit in the REIT today is focused on Chennai, Bangalore and Pune. Bangalore continues to be of high interest to REIT given its highly complementary and a very attractive market to begin with. So, that's the focus for us. The sponsor group owns about 10 – 11 million square feet of assets where there's a conversation today to figure out depending on the amount of capital that REIT has and can raise in future what is the right deal that could be done in a short period of time. So, we continue to have those conversations. It may take us a couple of rounds to get the entire portfolio, but at this point in time the good news is we have about Rs. 3,500 crores and we can put it to work very quickly. So, based on that, we are having a conversation on a 50% stake in large portfolio.

Jatin: - Good, thank you so much. That's all from me.

Moderator: Thank you. Before we take the next question, a reminder to participants that you may press "*" and "1" to join the question queue. The next question is from Pritesh Sheth from Axis Capital. Please go ahead.

Pritesh Sheth: Yes, thanks for the opportunity and congrats on very strong progress in terms of occupancy. First is on, again, the occupancy guidance. You already mentioned that we have achieved the low end of the guidance, but the next quarter, there is similar expirees coming up, which we had this quarter as well. Do you think you are a little bit conservative in terms of guidance and then there is significant upside on the occupancy number that we want to achieve by the end of FY25?

Ankit Gupta: So, Pritesh, I would say that we have already achieved our lower end of the guidance. For this quarter, we continue to put our heads down and focus on delivery. For now, we maintain our occupancy guidance that we have. Obviously, you know, if things go very well, we will try and over deliver on it, but right now we continue to maintain the occupancy guidance of 87% to 89%.

Pritesh Sheth: Just to get a sense on how next two years would look like in terms of occupancy, I think key pillars of further occupancy growth would be our SEZ assets in Gurgaon and Noida, right. So, we have applied for further conversions, mentioned about strong leasing pipeline in Slide #16. How should one look at these three assets specifically in terms of occupancy ramp up? These pipelines that you mentioned should get converted in the next couple of quarters. How is the visibility like?

Alok Aggarwal: A good observation. In our portfolio, looking forward, there are three assets where we have to really ramp up. You see, most of other assets are 90%+ and we have always maintained that our assets will reach 95% and move towards 98%-99%. That's our strong belief, given we have operated these assets for many years. So, if you look at G2, N2, and G1, which are largely SEZ assets, our occupancy levels on a weighted average basis, is about 78%. So, a bulk of new leasing in future would probably come from G2, N2, and G1. Now in N2 and G1, we already have areas which are de-notified. And in G1, we already have achieved leasing of about 200,000 square feet of NPA area, along with the SEZ leasing, which is moving in parallel. Now again, in N2, pipeline is very strong, and we can are expecting NPA conversion approvals soon. G2 as we have always maintained, probably would be the last to follow the occupancy curve and the reasons for that iswe are having large RFPs in G2 which is taking little additional time and also we have applied for NPA conversions in G2 which are also expected to come through in sometime But yes, in all these three assets viz G1, N2 and G2 we expect over a period of time, overall occupancy to cross 90% and then move towards 95%. Does that answer your question or any more questions you have?

Pritesh Sheth: No, absolutely. I think it answers my question. Yes, I think that's it from my side and all the best.

Alok Aggarwal: Thank you.

Moderator: Thank you. Participants who wish to ask questions, please press "*" and "1" on your touchtone telephone. Ladies and gentlemen, to ask questions, you may press "*" and 1. The next question is from Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: Hi. Good afternoon and thanks for taking my question. We have seen steady improvement in occupancy across most assets, probably except G2. Now you had mentioned earlier that G2 will probably be the last one to fill up. But in general, across the three large SEZ properties that we have with the G2, N2, and G1 where currently occupancies are let's say somewhere around 75% to 80% or so. What is your estimate by when let's say can we reach 90% occupancy across these three assets? Will it be let's say by the end of FY26 or do you think it will take longer?

Alok Aggarwal: This is Alok. Now if you see G1, today we are at 79%. And I think maybe two quarters back, we were at around 69%. So, we have seen a strong occupancy growth of almost 10%, in the last two quarters. So, if we were to look at asset wise, G1 momentum is very strong. We are seeing SEZ as well as non-SEZ leases picking up and this quarter in G1 we have done both SEZ and non SEZ leasing. So, G1, I think we'll see a very rapid growth in occupancy. I think let's hold on for next quarter to say when it will become 90% but there's quite a good chance that by end of next 12 to 15 months we could be at 90% or we'll cross 90%. So, that's on G1. N2 again, very strong leasing momentum, both from SEZ as well as non-SEZ tenants. And again in N2 also, we should see occupancy crossing 90% in a short time, I think this year itself actually. Assuming there are no expiries or any kind of surrender, we should be able to get to above occupancy numbers. Now G2 why we have said it's taking time? Because there are large tenants, there are large RFPs actually. And we are working on these large RFPs and they tend to take a little more time actually. That is one reason why G2 probably will take some more time to see pick up in occupancy and that's how it has been planned, but in G2 we have large RFPs that we are currently working on and if one of them get converted, we can see good improvement in G2 occupancy as well.

Parvez Qazi: Sure. My second question is regarding future SEZ conversion and what is the pipeline there. And specifically with regards to G2, what do you think will drive the increase in occupancy? There will be the conversion of SEZ into non-SEZ space? Or will we need an improvement in leasing in the SEZ area to improve the overall occupancy there? Thank you.

Alok Aggarwal: Yes, good question and as you have seen in our leasing numbers, we have been able to leverage on SEZ tenants along with leasing to Non SEZ tenants. Our existing SEZ tenants have expanded and taken up space. We have attracted new tenants to SEZ spaces because even though there are no direct tax benefits in SEZs, they continue to have indirect tax benefits and they still do offer value. So, our existing SEZ tenants continue to grow and we keep attracting new tenants in SEZ. In non-SEZ also, we have seen many new tenants coming and taking space across the campuses. So, in G2 also we again see a combination of SEZ as well as non-SEZ demand. And when I talk about non-SEZ, it will be largely new, but some of the existing tenants also probably can bring their non-SEZ portfolio into G2, but we'll see. And SEZ, it could be new as well as old. So, it's a combination of all three (a) SEZ tenants, (b) Non-SEZ tenants, and (c) existing SEZ tenants expanding their portfolios within the non-processing zones. Like in Kolkata Capgemini, they had SEZ presence, but now they taken up space for non-SEZ as well and that could get repeated in across our campuses. So, that is where our occupancy lands up.

Ankit Gupta: Parvez, I would just add that now in the current market, we are uniquely and favorably positioned as having supply in an asset of both SEZ and non-SEZ products, which is fairly unique. And like Alok mentioned, the kind of strong demand we are seeing from both SEZ and non-SEZ is helping us get the kind of growth we are referring to. I mean, for example, G1, we have now already denotified about half a million square feet. And of that half a million square feet, 200,000 square feet is leased up, while the SEZ area which we did not notify continues to get taken up by the SEZ tenants. This is just one example. Kolkata, we de-notified 6 lakhs square feet, it is already leased up and so on. So, that dual product story is playing out in our favor.

Parvez Qazi: Sure, thank you.

Moderator: Thank you. Participants who wish to ask questions, please press "*" and "1" on your touchtone telephone. Ladies and gentlemen, to ask questions, you may press "*" and 1. Well, as there are no further questions, I would now like to hand the conference back to the management team for closing comments.

Alok Aggarwal: So, I am assuming there are no further questions. Thank you everyone for joining this call. We look forward to connecting with you all next quarter. Thank you.

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