

IPO Note

24th July 2020

Company Overview

K Raheja Corp delivers aspirational spaces with distinct characteristics and attributes, making each of its offerings unique. 'Mindspace Business Parks REIT offers a gateway to one of the largest Grade A office portfolios in India. It has a well-diversified portfolio spread across key commercial markets of Mumbai, Hyderabad, Pune and Chennai. Sustainability initiatives across the portfolio focusses on clean energy and recycling, that enable tenants to enjoy an efficient and eco-friendly work environment.' Their Company has also been ahead of the curve in the green development sector. In order to show the Company's responsibility towards contributing to a green society, it signed a memorandum of understanding with the CII-Green Building Council to construct green buildings, back in 2007. With its buildings certified in the categories of Gold and Platinum, it has been recognized with awards across prestigious forums. Backed by the belief that 'people are a company's greatest asset and competitive advantage'.

Objects of the issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, Mindspace proposes to utilize the net proceeds from fresh issue for:

- ⇒ Partial/full pre-payment/scheduled repayment of INR 9 bn towards certain debt facilities of the Asset SPVs availed from banks/financial institutions (including any accrued interest and any applicable penalties/ premium).
- ⇒ Purchase of NCRPS of MBPPL. (INR 0.33 bn).
- ⇒ General corporate purpose. (INR 0.67 bn).

Investment Rationale

Diversified and quality tenant base

Majority of the company's tenant base is IT and ITeS which has done well during the pandemic. Mindspace REIT has a large tenant base covering leading MNCs and Fortune 500 companies. Some of its major clients are Accenture, Qualcomm, JP Morgan, Amazon, Schlumberger, UBS, Capgemini, Facebook, Barclays, and others. It further has 5 well-integrated office parks embedded with advanced infrastructure and all the amenities i.e. restaurants, outdoor sports, etc. and also have 5 independent quality offices. The aim of the business is to offer a community-based ecosystem to satisfy the demand of new-age businesses therefore, it is one of the topmost choices of domestic as well as multinational corporations. It has also taken many sustainability initiatives such as clean energy, recycling, and others to provide a sustainable environment to tenants.

Portfolio with Significant Scale

Company's Portfolio comprises 5 integrated business parks and 5 quality independent offices, totaling 29.5 msf of Total Leasable Area, comprising 23 msf of Completed Area (of which 3.3 msf was achieved in fiscal year 2020), 2.8 msf of Under Construction Area and 3.6 msf of Future Development Area, as of March 31, 2020. In addition, over the last 5 fiscal years, they have added 7.5 msf of area, of which 3.3 msf was added in fiscal year 2020, which includes 1.2 msf in Mindspace Madhapur, 1.3 msf in Gera Commerzone Kharadi, 0.7 msf in Mindspace Airoli East and Mindspace Airoli West and 0.1 msf of The Square, BKC.

Valuation and Outlook

Mindspace REIT (M-REIT) issue is the Second REIT IPO after Embassy Parks that is coming up for public issue in India. M- REITs portfolio Assets are well diversified across 172 tenants with no single tenant contributing more than ~8% of the Gross Contracted Rentals with ~85% of the Gross Contracted Rentals were derived from leading multinational corporations and ~39.4% from Fortune 500 companies. However, amidst COVID-19 pandemic many IT and service industries have opted for the Work from Home concept. The extended duration of the pandemic would be a key risk to rental growth and vacancies, especially for contracts that are nearing expiry. Considering an uncertain environment, we suggest investors to AVOID this IPO issue.

Issue Details

Offer Period	July 27th - 29th July 2020
Price Band	INR.274 to INR.275
Bid Lot	200
Listing	BSE&NSE
Issue Size (no. of shares in mn)	163.6

Issue Size (Rs. in bn)	45
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Face Value	Nil
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Issue Structure

Institutional Investor	75%
Non – Institutional Investor	25%

BRLM	Axis Capital, Morgan Stanley, DSP Merrill Lynch, Citigroup Global, JM Financial, Kotak Mahindra Capital, CLSA India, Nomura Financial, UBS Securities, Ambit Capital, HDFC Bank, IDFC Securities, ICICI Securities
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Registrar	KFin Technologies Pvt. Ltd.
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Income Statement (INR in mn)

Particulars	FY18	FY19	FY20
Revenue			
Revenue from operations	12,631	14,316	17,660
Total revenue	12,631	14,316	17,660
Expenses			
Cost of works contract services	-	-	2,140
Cost of materials sold	8	4	3
Cost of power purchased	550	617	683
Employee benefit expenses	39	44	68
Other expenses	4,176	3,518	3,650
Total Operating expenses	4,773	4,183	6,544
EBITDA	7,858	10,133	11,116
Depreciation and amortisation expense	2,054	2,196	1,146
Other income	2,391	2,481	2,602
EBIT	8,195	10,418	12,572
Finance costs	4,688	4,462	5,114
Add : Regulatory income/ (expense) (net)	(19)	70	14
Add : Regulatory income (net) in respect of earlier years	30	47	46
PBT	3,518	6,073	7,518
Current tax	755	993	1,080
Deferred Tax charge	1,514	86	1,578
MAT credit charges	(361)	(160)	(279)
Total tax incurred	1,908	919	2,379
PAT	1,610	5,154	5,139

Source: Company, BP Equities Research

Cash Flow Statement (INR in mn)

Particulars	FY18	FY19	FY20
Cash Flow from operating activities	7,590	9,338	9,266
Cash flow from investing activities	(4,267)	(5,860)	(13,551)
Cash flow from financing activities	(4,878)	(3,561)	4,743
Net increase/(decrease) in cash and cash equivalents	(1,555)	(83)	458
Cash and cash equivalents at the beginning of the period	520	(1,035)	(1,119)
Cash and cash equivalents at the end of the period	(1,035)	(1,119)	(661)

Source: Company, BP Equities Research

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Balance Sheet (INR in mn)

Particulars	FY18	FY19	FY20
Liabilities			
Share Capital	500	500	500
Reserve & Surplus	12,074	16,634	20,752
Non controlling interest	999	1,336	1,663
Net worth	13,573	18,470	22,915
Long-Term Borrowings	52,555	56,209	63,569
Long-Term Provisions	5	8	9
Other financial liabilities	1,586	1,491	1,997
Other Non Current Liabilities	4,133	1,791	3,389
Total Non Current Liabilities	58,279	59,499	68,964
Trade payables	781	692	823
Short term borrowings	1,586	1,394	3,943
Other financial liabilities	9,864	9,700	14,751
Other current liabilities	499	1,572	774
Short Term Provisions	-	1	8
Total Current Liabilities	12,730	13,359	20,299
Regulatory deferral account - liabilities	156	109	46
Total liabilities	84,738	91,437	1,12,224
Assets			
Tangible Assets	1,263	1,218	1,453
Capital work in Progress	22	22	22
Investment property	39,411	40,244	56,710
Investment property under construction	14,026	19,059	17,724
Intangible Assets	2	1	1
Long term Investment	2,561	1,560	1,363
Deferred tax Assets (Net)	371	116	94
non-current tax assets(net)	1,368	1,892	2,534
Other non-current assets	985	1,063	1,307
Total Non current assets	60,009	65,175	81,208
Inventories	21	33	52
Trade Receivables	368	301	362
short term loans and advances	21,129	21,000	21,763
Cash and Bank Balances	446	630	2,561
Other financial assets	2,418	3,939	5,763
Other current assets	305	247	405
Total Current Asset	24,687	26,150	30,906
Regulatory deferral account – assets	42	112	110
Net Current Assets	11,957	12,791	10,607
Total Assets	84,738	91,437	1,12,224

Source: Company, BP Equities Research

Key Risks

- ⇒ Company's business and profitability depends on the performance of the commercial real estate market in India. Any fluctuations in market conditions may have an adverse effect on their business, results of operations and financial condition.
- ⇒ REIT Regulations require us to adhere to certain investment conditions, which may limit their ability to acquire and/or dispose of assets.
- ⇒ Some of their assets are located on land leased from MIDC and MMRDA. The relevant Asset SPVs are required to comply with the terms and conditions provided in the respective lease agreements with such government bodies, failing which MIDC and MMRDA, as the case may be, may, impose penalties, terminate the lease or take over the premises.



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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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