

December 17, 2024

Mindspace Business Parks REIT: [ICRA]AAA (Stable) assigned for proposed NCD; ratings reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture (NCD)	2,890.00	2,890.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	150.00	150.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Proposed non-convertible debenture	200.00	200.00	[ICRA]AAA (Stable); reaffirmed
Proposed non-convertible debenture	0.00	400.00	[ICRA]AAA (Stable); assigned
Commercial paper (CP) programme^	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	5,740.00	6,140.00	

*Instrument details are provided in Annexure-I; ^ Of the total Rs. 1,000.00 crore CP, Rs. 450.00 crore of CPs are listed and remaining are proposed to be listed

Rationale

The rating action for Mindspace Business Parks REIT (Mindspace REIT) favourably factors in its well diversified and large portfolio of assets with expected sustenance of healthy committed occupancy in the medium term and comfortable leverage levels. The committed occupancy for the completed area stood at 89.7% as of September 2024 (88.6% as of March 2024). The ratings note its large and diversified portfolio of assets with office space, including completed area of 26.4 million square feet (msf), under-construction area of 4.4 msf and area for future planned development of 3.9 msf as of September 2024. Mindspace REIT's portfolio is spread across major cities such as Mumbai, Pune, Hyderabad and Chennai, with a reputed and diversified tenant mix comprising leading multi-national and Indian corporates. The top 10 tenants generated 28.8% of the gross contracted rentals as of September 2024.

The ratings draw comfort from the low external borrowings at the consolidated level with total debt at Rs. 7,810.9 crore and comfortable Total debt/ Net operating income (NOI) at 3.9 times as of September 2024. The portfolio has a low leverage with loan to asset value (LTV)¹ of 21.9%, which provides exceptional financial flexibility to Mindspace REIT to fund its future organic as well as inorganic growth. Based on its current capital expenditure plans, ICRA expects the Total Debt/NOI to remain at less than 4.5 times in the near to medium term. Part of Mindspace REIT's debt, at the consolidated level, is in the form of commercial paper (CPs) and non-convertible debentures (NCDs) with bullet repayments at the end of their maturity period, exposing the REIT to refinancing risk. This risk is mitigated to an extent by the tranche repayment of the issuances and undrawn overdraft/LRD facilities of Rs. 746.3 crore as of September 2024, which are expected to be available to meet any exigencies. ICRA notes that tenant leases contributing to 2.9% and 5.1% of the gross contracted rentals will be due for expiry in H2 FY2025

¹ For the purpose of LTV calculation, Net Debt is post accounting and minority adjustments with market value as on September 30, 2024, based on the valuation report.

and FY2026. The risk is partially mitigated by reputed tenants with strong businesses and lower-than-market rentals, increasing the tenant stickiness.

The ratings consider the impact of the future acquisitions that may be undertaken by Mindspace REIT on its leverage metrics. The two assets, Commerzone Raidurg, Hyderabad and The Square Avenue 98 (BKC Annex, Mumbai), which were under evaluation by the REIT for acquisition, have been put on hold in the near term. ICRA will monitor the future asset acquisitions and their consequent impact on the leverage. Comfort, however, is drawn from the proven track record and the experienced management of the REIT sponsor, K Raheja Corp Group (KRC), as well as the REIT manager K Raheja Corp Investment Managers Private Limited (formerly known as K Raheja Corp Investment Managers LLP (KRCIML)), and the financial flexibility of Mindspace REIT.

ICRA expects that Mindspace REIT's credit profile will be supported by REIT regulations that restrict the extent of under-construction assets in the portfolio to less than 20% of the asset value and the cap on leverage at 49% of the asset value.

The Stable outlook reflects ICRA's opinion that the Trust will benefit from its large, diversified and stable operational portfolio, the anticipated growth from assets currently under development and the expected low leverage levels.

Key rating drivers and their description

Credit strengths

Well-diversified and large portfolio of assets with strong tenant profile – The asset portfolio under the REIT includes some of the major business parks of Mumbai, Hyderabad, Pune and Chennai, with a reputed and diversified tenant mix comprising leading multi-nationals and Indian corporates, wherein the top 10 tenants generate 28.8% of the gross contracted rentals as of September 2024. The asset portfolio of the REIT includes completed office space area of 26.4 msf, under-construction area of 4.4 msf and area for future planned development of 3.9 msf as of September 2024. The completed area reported a committed occupancy of 89.7% as of September 2024, (88.6% as of March 2024), supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets.

Low leverage and comfortable debt coverage – The ratings draw comfort from the low external borrowings at the consolidated level with total debt at Rs. 7,810.9 crore and comfortable total debt/NOI at 3.9 times as of September 2024. Consequently, the coverage indicators remain comfortable. Further, the portfolio has low leverage with LTV of 21.9% as of September 2024, which provides financial flexibility to Mindspace REIT to fund its future organic as well as inorganic growth. The incremental debt drawdown for the under-construction assets will increase the debt to some extent in the medium term. Based on its current capital expenditure plans, ICRA expects the Total Debt/NOI to remain at less than 4.5 times in the near to medium term. Low leverage provides financial flexibility to fund the future construction and acquisition.

Track record of sponsor and REIT manager – The REIT manager and sponsor are a part of KRC, which has considerable experience in developing and managing commercial real estate projects. KRC is one of India's leading groups in the real estate development and retail business, with experience of over four decades in developing and operating assets across commercial, hospitality, retail, and residential segments.

Credit challenges

Exposure to refinancing risk – Part of Mindspace REIT's debt, at the consolidated level, is in the form of CPs and NCDs with bullet repayments at the end of their maturity period, exposing the REIT to refinancing risk. This risk is mitigated to an extent by the tranche repayment of the issuances and undrawn overdraft/LRD facilities of Rs. 746.3 crore as of September 2024, which are expected to be available to meet any exigencies.

Vulnerability of commercial real estate sector to cyclicity – The company remains exposed to the inherent cyclicity in the real estate industry and vulnerability to external factors. ICRA notes that tenant leases contributing to 2.9% and 5.1% of the

gross contracted rentals will be due for expiry in H2 FY2025 and FY2026. However, the risk is partially mitigated by the reputed tenants with strong businesses and the lower-than-market rentals, which increase the tenant stickiness.

Environmental and social risks

Environmental considerations – The real estate segment is exposed to risks of increasing environmental norms affecting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can impact its business operations. The effect of changing environmental regulations on licenses for property development could also create credit risks.

Social considerations – The downside social risks faced by REITs like Mindspace could be said to be low. The demand for commercial office space, particularly those with good ancillary infrastructure and connectivity has been growing in India as the service economy expands. While there could be societal trends like preference for work-from-home, which could weigh on demand, on balance, the tailwinds for commercial real estate remain reasonably strong. Further, rapid urbanisation and a large working age population will support the demand for commercial real estate in India and benefit REITs like Mindspace.

Liquidity position: Strong

The liquidity position of the REIT is supported by stable rental income from the underlying assets and low operational expenditure in the leasing business. Healthy fund flow from operations will be adequate to cover the debt servicing obligations. Additionally, the REIT had cash and bank balances of Rs. 496.7 crore and fixed deposits of Rs. 369.7 crore as on September 30, 2024. Further, it had unutilised overdraft/LRD facilities of Rs. 746.3 crore as on September 30, 2024, which supports the liquidity profile.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Higher-than-anticipated borrowing that increases the LTV higher than 40%, on a sustained basis, or decline in the committed occupancy to lower than 80%, on a sustained basis, may trigger a rating downgrade. Any non-adherence to the debt structure may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate Investment Trusts (REITs)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Mindspace REIT and its subsidiaries (as mentioned in Annexure II)

About the company

Mindspace REIT is a Real Estate Investment Trust listed in India under the SEBI Real Estate Investment Trust Regulations, 2014. It is incorporated as a registered trust and listed through a public issue of units. The sponsor of Mindspace REIT is the K Raheja Corp Group, which has contributed shares in eight SPVs to the REIT in lieu of units in the latter. Mindspace REIT primarily holds interests in rental yielding of commercial real estate assets (Grade-A office portfolio). The REIT also houses a facility management division in one of the SPVs. The asset portfolio of the REIT has a total leasable area of 34.7 msf, including a

completed area of 26.4 msf, under-construction area of 4.4 msf and area for future planned development of 3.9 msf as of September 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	2282.1	2429.2	1265.7
PAT	308.5	561.2	272.7
OPBDIT/OI	67.4%	72.1%	73.0%
PAT/OI	13.5%	23.1%	21.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	0.7
Total debt/OPBDIT (times)	3.6	4.0	4.2
Interest coverage (times)	4.5	3.8	3.6

Source: Company, ICRA Research; *Unaudited; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2025)						Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025				Date & Rating in FY2024			Date & Rating in FY2023			Date & Rating in FY2022
				Dec 17, 2024	Nov 08, 2024	June 19, 2024	Apr 30, 2024	Feb 28, 2024	Aug 30, 2023	May 23, 2023	Feb 20, 2023	Jan 6, 2023	Jun 16, 2022	Sep 16, 2021
1	Issuer rating	Long-term	-	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
2	Non-convertible debenture	Long-term	2890.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-
3	Non-convertible debenture	Long term	500.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)							
4	Non-convertible debenture	Long-term	500.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-	-	-	-	-
5	Non-convertible debenture	Long-term	150.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-	-	-	-	-	-	-
6	Non-convertible debenture	Long-term	500.0	[ICRA] AAA (Stable)	-	-	-	-	-	-	-	-	-	-
6	Proposed Non-convertible debenture	Long-term	600.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-	-	-	-	-	-	-	-
7	Commercial paper	Short-term	1000.0	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable
Non-convertible debenture	Simple
Non-convertible debenture	Simple
Non-convertible debenture	Simple
Non-convertible debenture	Simple
Non-convertible debenture	Simple
Commercial paper	Very Simple
Proposed non-convertible debenture	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0CCU07058	Non-convertible debenture	Jan 31, 2022	6.35%	Dec 31, 2024	500.00	[ICRA]AAA (Stable)
INE0CCU07066	Non-convertible debenture	July 27, 2022	7.9%	July 27, 2027	500.00	[ICRA]AAA (Stable)
INE0CCU07074	Non-convertible debenture	Mar 14, 2023	8.0%	Apr 13, 2026	550.00	[ICRA]AAA (Stable)
INE0CCU07082	Non-convertible debenture	Jun 01, 2023	7.75%	Jun 30, 2026	500.00	[ICRA]AAA (Stable)
INE0CCU07090	Non-convertible debenture	Sept 08, 2023	8.0%	Dec 10, 2026	500.00	[ICRA]AAA (Stable)
INE0CCU07108	Non-convertible debenture	Mar 21, 2024	7.9%	Mar 20, 2027	340.00	[ICRA]AAA (Stable)
INE0CCU07116	Non-convertible debenture	May 13, 2024	7.96%	May 11, 2029	500.00	[ICRA]AAA (Stable)
INE0CCU07124	Non-convertible debenture	June 25, 2024	7.90%	June 24, 2031	650.00	[ICRA]AAA (Stable)
INE0CCU07132	Non-convertible debenture	Nov 26, 2024	7.54%	Feb 18, 2028	500.00	[ICRA]AAA (Stable)
-	Issuer rating	-	-	-	-	[ICRA]AAA (Stable)
-	Proposed non-convertible debenture*	-	-	-	600.00	[ICRA]AAA (Stable)
INE0CCU14039	Commercial paper	Apr 26, 2024	7.75%	Feb 25, 2025	350.00	[ICRA]A1+
INE0CCU14054	Commercial paper	Sep 25, 2024	7.93%	June 06, 2025	100.00	[ICRA]A1+
-	Commercial paper^	-	-	-	550.00	[ICRA]A1+

Source: Company; *Proposed to be listed; ^ Yet to be placed

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Intime Properties Limited	89%	Full Consolidation
Sundew Properties Limited	89%	Full Consolidation
K. Raheja IT Park (Hyderabad) Limited	89%	Full Consolidation
Mindspace Business Parks Private Limited	100%	Full Consolidation
Gigaplex Estates Private Limited	100%	Full Consolidation
Avacado Properties & Trading (India) Private Limited	100%	Full Consolidation
KRC Infrastructure and Projects Private Limited	100%	Full Consolidation
Horizonview Properties Private Limited	100%	Full Consolidation

Source: Company; ICRA Research

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