



November 01, 2023

To,
The Corporate Relations Department,
The National Stock Exchange of India Limited,
Exchange Plaza, 5th Floor,
Plot No. C/1, G-Block, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400051.

To,
The Corporate Relations Department,
Department of Corporate Services,
BSE Limited,
25th Floor, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001.

Re: Script Symbol “EMBASSY”, Scrip Code 542602 and Scrip Code 960421, 973434, 973545, 973546, 973910, 974885, 975051 and 975056 (NCDs).

Dear Sir/ Madam,

Subject: Transcript of the Earnings Conference Call for the quarter and half-year ended September 30, 2023.

In continuation to our letter dated Friday, October 27, 2023, regarding the link to access the audio recordings of the Earnings Conference Call held on Thursday, October 26, 2023, at 1830 Hrs IST to discuss Embassy REIT’s financial results for the quarter and half-year ended September 30, 2023, please see enclosed the transcript of the aforesaid Earnings Conference Call.

The transcript referred to above has been uploaded on our website and can be accessed through the link as set out below:

https://eopwebsvr.blob.core.windows.net/media/filer_public/96/07/9607f46c-ee52-4d43-a0cf-7d385c6fd443/embassy_reit_earnings_call_q2_fy24_transcript_w_qa.pdf

Thanking you,

For and on behalf of **Embassy Office Parks REIT** acting through its Manager, **Embassy Office Parks Management Services Private Limited**

Vinitha Menon
Company Secretary and Compliance Officer
A25036

Encl: As above



Embassy REIT
Q2 FY2024 Earnings Call
October 26, 2023



CORPORATE PARTICIPANTS

Aravind Maiya – Chief Executive Officer (CEO)

Abhishek Agrawal – Chief Financial Officer (CFO)

Ritwik Bhattacharjee – Chief Investment Officer (CIO)

Sakshi Garg – Investor Relations Manager

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for Embassy REIT's second quarter FY2024 Earnings Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions at the end of the presentation during the question-and-answer session. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference – Ms. Sakshi Garg, Investor Relations Manager for Embassy REIT. Mam, you may begin.

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Sakshi Garg

Investor Relations Manager

Thank you. Welcome to the Q2 FY2024 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter and half year ended September 30, 2023 a short while back. As is our standard practice, we have placed our financial statements, earnings presentation discussing our performance, and a supplemental financial and operating databook in the Investors section of our website at www.embassyofficeparks.com.

As always, we would like to inform you that management may make certain comments on this call that one could deem forward-looking statements. Please be advised that the REIT's actual results may differ from these statements. Embassy REIT does not guarantee these statements or results and is not obliged to update them at any time. Specifically, any financial guidance and proforma information that we will provide on this call are management estimates, based on certain assumptions and have not been subjected to any audit, review, or examination procedures. You are cautioned not to place undue reliance on such information and there can be no assurance that we will be able to achieve the same.

Joining me today are Aravind Maiya, our CEO, Abhishek Agrawal, our CFO and Ritwik Bhattacharjee, our CIO. We will start off with brief remarks on our business and financial performance and then open the floor to questions.

Over to you, Aravind.

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Aravind Maiya

Chief Executive Officer (CEO)

Thank you, Sakshi.

Good evening and thank you all for joining us today to discuss our Q2 results.

To start with the key highlights for the quarter, we achieved our highest-ever quarterly leasing of 2 msf, delivered a new office tower of 1 msf in Bangalore and announced distributions of ₹5.53 per unit. Although our portfolio occupancy saw a temporary dip due to an anticipated large IT services exit, we have a strong pipeline to backfill the space. We remain on track with our FY2024 financial guidance and taking into account a large early renewal of space at our Embassy GolfLinks park, we are raising our leasing guidance from 6 msf to 6.5 msf for the full year.

On the macro front

Global companies continue to flock to India, on the back of our skilled Indian talent available at scale. In the first half of CY2023, 41 new Global Captive Centers ('GCCs') were set up in India, including 18 new entrants. Considering this buoyancy in demand for premium Indian office spaces, independent property consultants have raised their current year forecasts for India office absorption. We are also seeing an increase in the active Request for Proposals ('RFP's) in the market, which have gone up from 8 msf as of July'23 to 20 msf today. Notably, around 60% of these open space requirements are for Bangalore, our core market. Additionally, 'return to office' continues to pick up pace in India, with multiple large employers mandating employees to work out of offices.

With this backdrop, let me now update you on our Q2 leasing performance

- We leased a record 2 msf across 25 deals and expanded our occupier base to 240. This included 1.2 msf of new leases and 0.7 msf of renewals at 56% rent reversions. The renewals included a c.0.6 msf of lease expiry due in FY2025, for which renewal terms were agreed with IBM over a year in advance. Further, our existing tenant ANZ exercised their hard option for an additional 133k sf in the under development M3 Block B in Bangalore, and with this, the building is now fully pre-leased.
- Continuing the trend from the last quarters, the leasing demand was primarily driven by GCCs, contributing to over 70% of our leasing. In terms of sectors, technology, BFSI and healthcare firms led the demand.
- Interestingly, 7 deals over 100k sf, including one deal over 500k sf, were signed by us this quarter. This clearly indicates that global corporates are getting increasingly confident of their business and headcount growth in India and hence accelerating their medium-term real estate planning.
- We noted leasing traction across our assets and signed deals for 9 of our properties. With this, 50% of our properties are now back to 90%+ occupancy levels and our Embassy 247 park in Mumbai is 100% occupied.
- In terms of markets, Bangalore and Mumbai led the demand and contributed over 90% of the total leasing this quarter. These two cities, which represent our largest markets and over 85% of our portfolio value, are near or above 90% occupancy levels now.
- Overall, our office portfolio is at 83% occupancy by area and 86% by value. On a same-store basis, the occupancy stood at 87%, which excludes the recently delivered M3 Block A in Bangalore, Hudson and Ganges block in Pune and the recently vacated F2 building in Embassy Manyata, which is under refurbishment.
- In terms of exits, I want to highlight that, of the total 2.3 msf exits in the last 6 months, we have already backfilled 1 msf of space at market rents. The balance 1.3 msf was primarily exited by two large Indian IT services players at our Embassy Manyata and Embassy Galaxy business parks. We have a strong pipeline for both these spaces and are confident of backfilling at least 50% of this space by the end of the financial year and realizing over 50% MTM on the same.
- Of the 6.2 msf current vacancy, around 60% is concentrated in Pune and Noida, both of which are significantly lower rental markets for us. The vacancies in these two cities will take some time to fill, but it is important to highlight that even post full stabilization, it will translate to only ~5% of our current NOI.

- So, at the halfway mark for this year, we have already leased 3.1 msf and have a record leasing pipeline of 2.5 msf, which includes 1.3 msf against existing space and 1.2 msf of pre-commitments in our development portfolio.
- Considering the 0.6 msf of early renewals signed this quarter, we are raising our FY2024 leasing guidance from 6 msf to 6.5 msf. This comprises 4 msf of new leasing including new building deliveries planned this year, 1.3 msf of pre-commitments and the revised 1.2 msf of renewals.
- Overall, we expect that by the end of the financial year, our full portfolio occupancy will end at around 85%. This will include the impact of 2.1 msf of buildings being delivered this year, including the 0.7 msf tower in Noida where the leasing demand is muted. On a same-store basis, we expect the occupancy to end at around 88% levels by Mar'24.

On the SEZ front

- We have successfully de-notified the 0.4 msf D3 building in Embassy Manyata. We have also applied for denotification for the recently vacated 0.8 msf F2 building in the same park, which is also under refurbishment. We already have a healthy non-SEZ leasing pipeline for this block.
- For our partially vacant SEZ buildings with around 3.5 msf of vacancy, we understand that a likely amendment to the SEZ Act is in advanced discussions at the relevant ministry level and we continue to be hopeful for a quick resolution on this matter.

Moving to our development portfolio

- During the quarter, we received occupancy certificate for the 1 msf M3 Block A in Embassy Manyata. In the coming months, we expect to deliver another 1.1 msf across two blocks in Embassy Business Hub and Embassy Oxygen at Bangalore and Noida, respectively.
- Our current development pipeline now totals 7.1 msf. Of this, around 90% is in Bangalore, the city which continues to lead India's office absorption on the back of sustained interest from GCCs. Notably, around 25% of our Bangalore development pipeline is already pre-leased, and there is a 1.2 msf advanced pipeline for the remainder.

Lastly, on our hotels

- Our Q2 hotel occupancy stood at 52% and ADRs at over ₹10,000 per room night, resulting in a quarterly EBITDA of ₹37 crores. Overall, our hotels delivered a 24% YoY ADR growth, stronger than the market.
- Particularly, the 3 Hilton hotels continued to grow strongly and deliver NOI margins close to 50%.

Finally, we are delighted to launch the Indian REITs Association ('IRA') last month as a founding member. The association has already started work on key agenda items such as educating investors, improving liquidity, and collaborating with regulators on enhancing the REIT governance and investor protection norms. We are confident that together with the IRA, we will continue to build understanding and awareness of the REIT product in India and further expand our unitholder register, which has already touched 89k this month.

Let me now hand over to Abhishek for our financial updates.

Abhishek Agrawal

Chief Financial Officer (CFO)

Thanks, Aravind. Good evening everyone. Let me take you through the financial updates for the quarter.

- **Revenue from Operations** grew by 4% YoY to ₹889 crores. This was mainly driven by new lease-up at high re-leasing spreads, contracted rent escalations, and a ramp-up in our hotel business. This was partially offset by the impact of exits in our office portfolio.
- **Net Operating Income ('NOI')** grew by 2% YoY to ₹719 crores, in line with the increase in our Revenue.
- **Net Distributable Cash Flows ('NDCF')** grew by 1% YoY to ₹524 crores. The YoY increase in our NOI contributed positively to our distributions, which was primarily offset by an increase in interest costs. Further, we have declared Q2 distributions of ₹524 crores or ₹5.53 per unit, making this our 18th quarter of 100% distribution payout.

Moving to updates on our balance sheet

- During Q2, we successfully raised Non-Convertible Debentures ('NCD's) and bank loans, totaling ₹1,500 crores at an average rate of 8.1%, to refinance our maturing debt. For the new NCD raised, we achieved a competitive 121 bps spread over G-Sec and secured first-time participation from pension funds, further diversifying our debt investor base.
- We have ₹2,600 crores of upcoming debt maturity in Q4 of this financial year. We already have significant interest from multiple banks to refinance the entire upcoming maturity. We will also evaluate the debt capital market at the appropriate time during the next few months. Considering our diverse debt capital market pools and credit lines available from banks and NBFCs, we are confident of refinancing this debt at industry-leading rates.
- From next year onwards, our bond maturities are much more evenly spread out. Overall, our balance sheet remains strong with dual AAA/Stable credit ratings and in-place average debt cost of 7.4%, one of the lowest in the industry.
- Next, on our independent valuation. As of Sep'23, our Gross Asset Value increased by 2% YoY to ₹52,651 crores and our Net Asset Value by 1% to ₹398.86 per unit. This change was mainly driven by an increase in our hotel ADRs, partially offset by a change in the leasing assumptions for our Pune and Noida assets.

Lastly, an update on our FY2024 guidance

Based on our YTD performance, I am pleased to reconfirm the financial guidance provided last quarter. We continue to expect our NOI to be in the range of ₹2,924 to ₹3,136 crores and our distributions to be in the range of ₹20.5 to ₹22 per unit. This guidance is based on certain key assumptions, which include a revised 6.5 msf total lease-up, around 88% same-store occupancy by year-end, a 60% YoY increase in hotel EBITDA and a 15-18% YoY increase in the total interest expense for the year.

Looking beyond FY2024, I would like to reiterate the key growth levers of our business.

- First, we expect our occupancy to stabilize at pre-Covid levels of mid-90s in the next few years.
- Second, we will continue to lock in the contracted rent escalations of around 15% every 3 years.
- Next, we expect to realize the current MTM potential of 12% over our remaining WALE of 6.9 years. We have consistently achieved these spreads in the past – around 20% on 2 msf area renewed or re-leased per year on an average since our listing. On the back of our portfolio's premium positioning, our transacted rents have been typically higher than the market rents.
- Additionally, the 7.1 msf of new supply that we are developing primarily in Bangalore offer over 20% NOI yield. Compared to the current marginal borrowing cost ranging from 8 to 8.5%, this organic growth is expected to be highly accretive.
- Lastly, once the financing markets are conducive, any inorganic growth through accretive acquisitions will provide a further impetus to our distributions.

These embedded growth levers set us well to deliver consistent DPU growth to our unitholders from the next year onwards. With this, let's now move to Q&A please.

QUESTION & ANSWERS SESSION

(Note: The Q&A has been edited for clarity)

- Moderator:** Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Kunal from Bank of America. Please go ahead. Kunal, you may go ahead with your question.
- Kunal Tayal:** My first question is on the expiries which seemed to have gone up for FY2024. I am adjusting for the earlier renewal which has happened. So, just curious as to which segment is this uptake in expiries coming from? And is it typical that if the demand or the leasing environment is improving then the expiries should also be going up?
- My other question is around the MTM potential, which you noted has come down to 12% over the period of the last few quarters. The question here is, is that because you have been very successful at renewing at market or market plus kind of rates? Is that the driver or is it also because the market rates itself may no longer be going up at the pace that they were doing so earlier?
- Aravind Maiya:** Kunal, thanks for your questions. So, just starting off with the expiries for FY2024, largely the increases are coming from IT service players. The exits predominantly are from that sector. A combination of continued work from home as well as the profit pressures which you are seeing in that segment. So, that's the key reason for the increase in exits.
- From a leasing market perspective, what we have said in our results as well, we are overall very positive, especially for the two key markets for us, Bangalore and Mumbai. Occupancy also has gone up and if you adjust for the Cognizant space which was vacated in our Embassy Manyata Park in Q2, our occupancy in Bangalore as a whole is also above 90% and Mumbai is at 96%. Record 2 msf lease up during the quarter and 2.5 msf of pipeline as we speak. Overall, RFPs in the market are also much higher. So, the leasing market is much better. I think it's a transitory period for us where the occupancy is low, but we will see that going up as we mentioned even in our year-end guidance. So, that's my view on the leasing market.
- And the last question, you kind of answered yourself. It's largely because of both reasons that you mentioned. One, our ability to do renewals and releasing at or above market rates. Number two, other than probably Bangalore and now a little bit in Mumbai, the market rents have not necessarily gone up to the same extent the way they used to go up pre-COVID. So, because of the combination of both these factors, you see the current MTM spread available is a much lower number than what it was before.
- Kunal Tayal:** A quick follow-up. The pipeline value of 2.5 msf again is quite strong. Would you still characterize it as mainly coming from GCCs or is the strength in that sense spreading to other segments as well?
- Aravind Maiya:** It is largely GCCs. Just to give a little bit more flavor, it's a combination of large RFPs which we have not seen in the past. It's also regular lease ups for existing spaces. One important number to highlight over here is that almost 50% of the RFPs are new tenants for us looking at growth and an additional 40% of these RFPs are existing tenants but looking for more space. So, when you look at it together, a large part of it is growth demand. So, that's why overall it is very positive.
- Moderator:** Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.
- Murtuza Arsiwalla:** Just wanted to check while the leasing activity has been good, obviously, the exits have been bothersome. Even this quarter you have had 1.6 msf exits. Some of it was anticipated. Some may have come in as a surprise. Any sort of trend that you can pick

up in terms of the exits? Is it a particular client segment? Is it in terms of size? Whether big tenants? Small tenants? Or any visibility going forward from here whether we are seeing the tail end of these exits? Because you are able to lease up pretty well, but with the exits, you are not able to capitalize fully on the new leasing that we are doing. So, any color that you can give on how we should think of the exits from here on? Is there more predictability, any color that you can give on these exits?

Aravind Maiya: Murtuza, the exits are bothersome to us also, even though we have been able to release much faster. A clear trend is, what I mentioned, that a substantial majority of our exits are coming from the ITES sector. This is due to a combination of reasons, both profits and overall margins being down as well as their business model being more amenable to work from home. That's one sector which just stands out, which has added to the exits.

Also, there are two things I would like to add over here. Number one, IT, ITES services in our portfolio is now around 12%. This number was 25% at the time of IPO. So, there is already a substantial reduction in this portfolio size. So, that's probably one indicator for you as to what is the further downside in this market. It's not that much.

Second, when you look at it from FY2025 point of view, I will not want to go beyond FY2025 as of now, there is about 1.1 msf of expiries. While I wouldn't want to specifically give a guidance, but as we speak now, the trends are more positive.

Murtuza Arsiwalla: And even in the FY2024 for the second half, you have got another 1 msf of expiries. Are you expecting to renew them?

Aravind Maiya: It's going to be a combination of both, Murtuza. I would say it would be a combination of exits and renewals, both almost equal.

Murtuza Arsiwalla: Yes, because your full year guidance for renewals is about 1.2 msf. You have been able to do about 0.9 msf so far. Fair enough.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Sorry to harp on the same point. If I see Slide #16, it talks about 4.2 msf of expiries. The same number was 2.8 msf just a quarter back. What really added to this substantial increase? Or am I not reading it correctly?

Aravind Maiya: So, one is this big early renewal, Puneet, which is 0.6 msf of IBM at Embassy GolfLinks. That's reason number one, which is a positive. Second is almost 800 to 900k sf of additional expiries which have come in and that for the sake of repeating the answer, largely comes from the same IT/ITES sector.

Puneet Gulati: And what kind of discussions drive these early renewals?

Aravind Maiya: One of the key things is, considering this specific example, is a large space. From their point of view, they need to be sure of where they will be, let's say, 12-15 months down the line. So, it makes sense for them also to secure themselves whether they want to continue in the same space or if they want to explore a new space they might actually need more time, as they would need to move to a new space, set up a new office with fresh fit outs. So, it's largely driven from the occupiers themselves because of the quantum of space which they already hold.

Puneet Gulati: And in your data book, there is also 0.9 msf of leasing which happened in Manyata. I presume part of it would be the M3 Block which was pre-leased. Can you give some color on what is the average rental there that you are able to derive now?

Aravind Maiya: Average rental ranges between ₹96, 97 to a little above 100, depending on the age of

the buildings as well.

- Puneet Gulati:** Also, if you can give some color on what's the status of the M3 Block, how much is it leased totally, and how much more needs to go? And what is the final cost to the REIT to build M3?
- Aravind Maiya:** It's about 45% leased. On the cost, I will hand it over to Abhishek.
- Abhishek Agrawal:** So, the total cost to company was ₹1,050 crores, including the amount that we paid earlier, and the additional true-up consideration based on the agreement that we had.
- Puneet Gulati:** And 45% lease and presumably same value at ₹96 to 100.
- Aravind Maiya:** In the new blocks, we have been able to exceed above ₹100.
- Puneet Gulati:** That's interesting. And lastly, if I can add one more, there is a positive working capital adjustment this quarter. How long can we see these kinds of adjustments? And what is driving this?
- Abhishek Agrawal:** So, Puneet, again, I would say that we don't look at working capital adjustment quarter-on-quarter. What we look at is for the year, because quarter-on-quarter comes out of other regular matters also. For example, when you see current quarter versus previous quarter, the current quarter working capital is coming out of the fact that during Q1, we had paid property tax for half year. The impact of that is somewhere around ₹55 crores. So, out of the 62 crores, ₹55 crores is coming out of this.
- Puneet Gulati:** So, that was not there this time, but why should it get captured in working capital? Should it not be somewhere else in the P&L?
- Abhishek Agrawal:** So, Puneet, what happens is, if we pay this property tax in advance, it goes and sits in my advance payment, and during the next quarter, when I do a working capital movement of all the payables, receivables and advances, it features there because it gets reduced there. So, if you look at just from cash perspective, last quarter, ₹56 crores cash out versus this quarter zero cash out.
- Puneet Gulati:** That's very helpful. And lastly, if you can comment on the distribution from the Embassy GolfLinks? That's also gone down a bit.
- Abhishek Agrawal:** For Embassy GolfLinks, the distribution that they give to us is purely based on the cash flow that they have. Last quarter, the distribution that we got in total, all three components taken together, was ₹80 crores, compared to ₹68 crores which we received this quarter. Also, some of this cash that they generate, they use it for refurbishments and other projects also, and not necessarily fund it through debt. So, that's the reason it has reduced a bit during this quarter.
- Aravind Maiya:** If I can just add on to that, Puneet, from Embassy GolfLinks point of view, both we and the joint venture partner look at the cash flows on a quarterly basis, look at what's required from a next quarter point of view, and there could be some movements on a quarter-on-quarter basis. It need not necessarily move linear.
- Puneet Gulati:** How should one think about this number from the next quarter or second half perspective? Should it go down or should it come back up to the previous level?
- Abhishek Agrawal:** Out of the three components, one is interest, which is fixed based on the coupon rate. The other two components are based on the availability of cash. I would say that the way to look at it is whatever we received during the half year, you can say double of that you would receive in the full year. So, ₹75 crores per quarter on an average run rate basis.

- Moderator:** Thank you. The next question is from the line of Mohit Agrawal from IIFL. Please go ahead.
- Mohit Agrawal:** Aravind, in your opening remarks, you mentioned that by the end of the year, you expect the occupancy to stabilize around 85% and 88% on same store. Now that number is nearly similar to where you started the year although I understand there is some capacity addition. So, in that context, how do you see the distribution or the NOI in FY2025? I understand that you are not giving a guidance, but if you could give some color as to what kind of growth, we can see next year because the interest impact will continue, and the occupancy seems to be flattish. So, if you could throw some light on that?
- Aravind Maiya:** I think a simple answer to that, Mohit, was captured in Abhishek's last line, where we clearly said that we expect the DPU to grow from next year. So, I wouldn't attribute a number to it, but we clearly believe that NOI and DPU will grow from the next year, from where we will end this year.
- Mohit Agrawal:** The second question is, and this is for Abhishek. So, I was just trying to do some math. If you look at the in-place rentals, on a year-on-year basis has gone up by about 7% to 8%, which is great, and the area under lease is also marginally gone up, but the facility rentals or the NOI seem to be flattish. So, could you throw some light on why that would be?
- Abhishek Agrawal:** So, Mohit, when we disclose the in-place rentals, it includes the in-place rentals of the whole portfolio including GLSP. If you strip that out, then I think it is in line with the increase in the NOI that we have.
- Mohit Agrawal:** Probably I will take that offline and understand that from you. And my last question is on the share of interest in the distribution that you have announced this quarter, it has gone up sharply from about 12-13% to 22%, which will impact the post-tax distribution. So, how do you see that going forward? Is it like just one quarter thing or is that going to be the new normal?
- Aravind Maiya:** If you see last quarter, it was somewhere around 15-16%, and it has moved to 22%. the reason for this is that the depreciation is increasing and because of which the profit margin that we have is decreasing and hence, the dividend distributability is decreasing. I would suggest that whatever was there for the half year, which is around 17% to 20%, that will continue for the rest of the half year also.
- Mohit Agrawal:** That's clear, and just a last question, if I may. Aravind, on the SEZ denotification, you mentioned that this is anytime due. So, once it comes, let's say it comes today. Between the regulations and approvals and the tax impact which will be there, how much time do you think it will take for the occupancy to actually start reflecting the positive impact?
- Aravind Maiya:** It's a million-dollar question, Mohit. Honest answer, I think we just need to wait for the final regulations. In my view, it will take some time for the operational mechanics to stabilize because this will also require some approvals. Now, what level of approvals, whether it will go to a unit approval committee, whether it will go to a board of approvals of SEZ, some of these we will have better clarity once the regulation comes. So, I think I will wait to give a specific answer on this till the final regulations are out and we have some visibility of how long it takes to denotify floor by floor.
- And the last message I would give is, again from a city perspective, Bangalore will rebound much faster, even on the SEZ converted space as compared to our Pune and Noida portfolio.
- Mohit Agrawal:** Because you think the approvals come faster there.
- Aravind Maiya:** Not really. Just the micro-market related matters.

- Moderator:** Thank you. The next question is from the line of Chetan from Kotak. Please go ahead.
- Chetan Shah:** Three questions from our side. Firstly, on the true-up amount which is paid. The data book mentions a figure of about ₹230 crores. So, just want to understand whether that represents a cash payment from the REIT to Embassy and where could we tie it up with the financials?
- Number two, we wanted to understand some color on the physical occupancy which you are seeing now in your parks and any trends which you can highlight for us city-wise?
- And number three, on the Embassy GolfLinks renewal for the major client which you have done. Could you elaborate on any kind of tenant improvement costs which could have gone there and whether if you can directionally give us a sense on the rentals, you have mentioned the spread, but does it factor any rent free periods or any of such discounts which could have given potentially to such a large client?
- Aravind Maiya:** Thanks, Chetan. I will ask Abhishek to answer the true-up part. Then I will take the rest of the two.
- Abhishek Agrawal:** Chetan, when we mentioned that the total true-up is ₹230 crores, as of 30th September, we had paid only ₹82 crores. The balance ₹148 crores were paid post September 30. So, that is the reason why you may be having the trouble in reconciling it with the financials. After Q3, the total ₹230 crores will reflect in the financials.
- Mohit Agrawal:** So, ₹230 crores would represent a clear outflow of cash from REIT to the Embassy group?
- Abhishek Agrawal:** Absolutely. But as of 30th September, we had paid only ₹82 crores.
- Aravind Maiya:** Just moving to physical occupancy, I would say more or less things are kind of stabilizing where we are today. From a directional sense, taking city by city, Mumbai is more or less stabilized at full occupancy. Bangalore is a mix, like we have said before, global captives are at a much higher number ranging from 65% to 75%. You could argue that 75% is full capacity because probably even before COVID, it was never 100%, right. So, you could say global captives are almost back to full capacity versus IT/ITES which is still low at 30-35%, and that's primarily the reason why you are seeing exits in that sector. So, that's a sense of physical occupancy.
- In relation to EGL renewal, a couple of points. One, we just need to do some refurbishments and upgrades to the building before they take it up, and we have one year time to do that. In terms of rentals, without giving any specific number, all I can say is that we are very close to the market rate at which we have leased it. So, overall, I would say it's a very good outcome for us.
- Moderator:** Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.
- Saurabh Kumar:** Two questions. One, in terms of interest expense, what would be your incremental interest cost versus the current cost that we are seeing? I just want to know the differential left now to reprice up. And the second is this movement of the available space that we are seeing. I mean, when do you think that this piece turns more positive? So, currently your new leases are basically equivalent to the expiries and the area vacated. At what point do you think we will start to draw down on this vacant space? Should it be next quarter or next year? How would you think about it?
- Aravind Maiya:** So, why don't I take the space question first and then I will hand it over to Abhishek. On a net basis, we believe from next quarter onwards it should be positive. When you look at it holistically, while we have said that we will be at 85% full portfolio occupancy, that factors in the 2.1 msf of delivery. So, the short answer, yes, it is going to be positive from

next quarter, but when you look at it for the full portfolio including new deliveries, it will go up from next year onwards.

Saurabh: But excluding the new deliveries, we should see this now drawing down second quarter onwards, right?

Aravind Maiya: Yes, that's correct. Over to Abhishek for the interest question.

Abhishek Agrawal: Saurabh, on the interest, last NCD that we did was at around 8.1%. From there, the interest cost has slightly moved up. So, we think the incremental cost would be in the zip code of 8.5% coupon rate. If you look at it from a full year basis, then as per our guidance, we had guided that the total interest cost would be around 15% to 18% higher than what it was during the last year.

Saurabh: No, that I understand, but I just want to understand, so 8.5 is your incremental cost and how much of your debt reprices into next year?

Aravind Maiya: It's around ₹2,400 crores.

Moderator: Thank you. The next question is from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: So, just a couple of them. Firstly, on the capital structure side, we are now at around 29% leverage, and we are looking to move to 33%. So, do you think we pause at 33% or you still think we will go all the way to like 40 odd?

The second one is on the supply bit, and this is a broader market question. Are we seeing any letup in supply in your core Bangalore market or is it still continuing at the same pace that we had previously seen, despite the higher vacancies in the overall market?

Aravind Maiya: In terms of leverage, I don't know how you computed 29% going to 33%, but the sense is I am presuming that you have taken all the CAPEX to be spent on new build increasing the loan balance, but that also increases the gross asset value. So, it does not increase in that proportion. So, I don't see that number going up to the percentage what you mentioned, the first number itself. Forget about 40%. Anyway, we have a hard cap of 35%, which we can never cross. So, my sense is we will be below 33%. So, that's the indicator on debt.

In terms of supply, while there is a lot of supply coming up, from our point of view, I would just focus on Bangalore supply because 7 msf of our development is in Bangalore. Bangalore, even if you look at the upcoming supply for the next 3 years, it's in the same zip code as it was in the past, approximately 15 msf per annum.

And if you go line by line on the expected supply over the next 3 years and compare it to the supply which we have, which is largely in Embassy TechVillage and Embassy Manyata, I don't necessarily think we can compare some of the supply to the quality we have, because of the ecosystem which we have already built in TechVillage and in Manyata. So, somewhere we always get the upper hand when we are competing with some of the other developers for space. Not that we win everything, but we win a majority. So, I wouldn't be too concerned about the overall supply coming up in Bangalore.

Abhinav Sinha: On the gearing bit, if I may further ask a question, it appears that the headroom that we have to raise the gearing further is much limited than what it was three or four years back. So, when the DPU starts growing from next year onwards in a reasonable way, will we be capping out paying out the whole 100% or we would like to bring it down a little bit to maybe reduce the gearing?

Ritwik B: We view gearing as a sort of charged question in this situation, right. If you just look at what's happened in the markets over the last three or four years, I think we have done a phenomenal job ensuring that the balance sheet remains as pristine as possible for a couple of reasons. One is, look, our capital market tend to be very shallow. We just don't have the firepower that REITs let's say in Singapore or the US have. So, we have always been very focused on making sure that we are very selective about the projects we take on. Right now, it just makes more sense for us to build and finance at the rates that we have because it's more accretive in-house than to go out there and buy something for which potentially we can't make the numbers work. So, at the end of the day, that's effectively how we look at gearing.

And that's why we also took the entire decision to cap it at 35% because leverage has always been a bit of a difficult situation for real estate in this country, and we have been able to use it selectively to build out the parks and buy world-class assets like ETV and make sure that we can sort of build the portfolio that we have and, as we have said, distributions will grow in the cycle. This, I think, represents the last stagnating kind of situation that we have seen. But as it grows, I don't think there is any plan at this point in time to cap payouts, that's not the correlation we see. We will take on debt selectively to fund growth that is within the park, and it's accretive.

The inorganic growth right now, we just don't see that in front of us. Simply, it's not going to be accretive, and it's probably going to be a little expensive and hard to put together at this point. But we don't have any plans of actually capping distributions payout as they grow. We want to make sure that unitholders get full value for what they have bought into the structure for, and I think as the leasing increases, we plan to pay that out right now.

Moderator: Thank you. The next question is from the line of Satinder Singh Bedi from Eon Infotech Limited. Please go ahead.

Satinder S Bedi: Congratulations on the very stable distributions, good leasing performance and outlook, very efficient funding, execution of development which is on track and your usual disclosures. My questions are the following. Aravind, you gave a flavor of the physical occupancy for Bangalore and Mumbai. So, can you throw some light on the other two markets also in terms of whether there has been a movement in physical occupancy over the last three months or is it kind of now stagnating or stabilizing at the levels earlier?

And in terms of the take-up of space by new clients, in the past, it's been mentioned that the decision-making cycle, especially for larger spaces, has been extended. So, are we seeing that coming down? Because we guided for pre-commitments of about 1.3 msf. It seems that on that one parameter, we got some catching to do. So, are these related? So, is the decision making cycle coming down or is it still elongated? And how have you seen the rental outlook move in the markets that we operate in?

Aravind Maiya: Got it, Satinder. So, just taking the physical occupancy, I kind of addressed that by sector instead of city in a way by saying that global captives have stabilized between 65% to 75% and IT services continue to stagnate at 30% to 35%. Noida and Pune for us is a hardcore IT services market. So, it's in that range of around 30% to 35%, not really moving beyond that. So, that's on the physical occupancy.

In relation to the leasing decision-making cycle, it's a mixed bag. There are a few leases which are moving much faster than they were before. There are a few which are taking a longer time. Overall, when you look at it from a guidance point of view for pre-commitments, it is very difficult to say that they will flow evenly across the four quarters. It can be very lumpy. It could all come in one quarter or two quarters, but overall, I would say, things are looking much better. Few deals take similar amount of time, 3 to 6

months. Some of them happen much faster. So, that's a sense on decision-making cycle.

In terms of rental outlook, clearly in Bangalore and Mumbai, we are seeing rents going up ranging from 3% to 5%. Generally, we have been able to lease at much above market rents. You would have seen it by the numbers which I mentioned from Manyata sometime back as compared to what the IPCs call as market rent, which is around 94 bucks. So, the rentals in these two cities definitely have gone up in our portfolio versus say Noida and Pune where the rentals have remained stagnant for some time and continue to do so even now. So, that's a sense on the rental outlook.

Satinder S Bedi: That's very helpful. Finally, one housekeeping. We talked of renewals at 56% reversion. So, is this the current cash rent over the cash rent or is it the equalized rent over the equalized rent?

Aravind Maiya: So, it's cash over cash, Satinder.

Moderator: Thank you very much. That was the last question in the queue. As there are no further questions, on behalf of Embassy REIT, that concludes this conference. Thank you for joining us and you may now disconnect your lines.