Embassy REIT

Q3 FY2025 Earnings Call

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CORPORATE PARTICIPANTS

Ritwik Bhattacharjee – Interim Chief Executive Officer (CEO)

Abhishek Agrawal – Chief Financial Officer (CFO)

Amit Shetty – Chief Operating Officer (COO)

Sakshi Garg – Head - Investor Relations

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. A very warm welcome to all for Embassy REIT's third quarter FY2025 Earnings Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions during the question-and-answer session at the end. As a reminder, this conference call is being recorded.

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

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Sakshi Garg

Head – Investor Relations

Thank you. Welcome to the third quarter FY2025 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter and nine months ended December 31, 2024, yesterday. 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 Ritwik Bhattacharjee, our interim CEO, Abhishek Agrawal, our CFO and Amit Shetty, our COO. We will start off with brief remarks on our business and financial performance and then open the floor to questions.

Over to you, Ritwik.

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Ritwik Bhattacharjee

Interim Chief Executive Officer (CEO)

Thank you, Sakshi.

Good morning, everyone and thank you for joining us this morning.

Our business remains in fantastic shape, in large part due to the robust leasing environment in India that's driven by GCCs and in particular, Bengaluru. We delivered our highest ever quarterly revenues, NOI and total distributions and we are on track to meet our leasing guidance and financials for the year.

I have rejoined Embassy REIT as the CEO to ensure that the REIT continues delivering value to all our tenants, our 1 lakh+ investor base and all our debt holders. We are deeply grateful for all your support. I also thank Aravind for all his contributions to the REIT over the years, and to the exemplary team at the REIT for their hard work that is always reflected in the way we run our business.

Let's run through the operating details.

Leasing:

- We leased a total of 1.1 msf at 11% rental spreads. This included 0.7 msf of new leasing and 0.4 msf of renewals.
- We leased around 70% of this area to Global Captive Centers ('GCC's), primarily from technology, financial services and engineering and manufacturing sectors.
- We leased 16% to multiple co-working operators, a segment which continues to benefit from enterprise demand for flex spaces.
- We closed the quarter with a portfolio occupancy of 87% by area and 90% by value. I want to highlight that excluding Quadron, where the demand remains muted, we have already reached occupancy levels of 89% by area and 91% by value.
- With a strong pipeline of approximately 2 msf, we remain on track to achieve our annual leasing guidance of 6.5 msf and year-end occupancy guidance of 88% by area and 92% by value.

SEZ:

- We converted 1.1 msf SEZ area across Bangalore, Noida and Pune during Q3. Our total denotified and demarcated area now stands at 6.4 msf since we started the process, of which 74% is already leased.
- Around 0.4 msf is under conversion, and we are confident of completing this during Q4.

Developments:

- We handed over a 0.6 msf office tower to a global banking major in Embassy TechVillage. We will deliver the remaining three towers totaling 1.4 msf in the same asset by the end of this financial year.
- Our development pipeline now totals 7.4 msf. This will cost us around ₹3,800 crores and result in incremental stabilized NOI of ₹800 crores, which implies around 19% yield on cost.

Leasing demand, especially in Bangalore, remains robust. Calendar year 2024 clocked the highest-ever gross absorption of 74 msf and net absorption of around 45 msf. GCCs are driving this trend, coupled with robust demand from flex operators. We see further momentum through CY2025 and with our pipeline, strong relationships with leading GCCs and the leasing community, we remain ideally positioned to benefit from these leasing tailwinds across our portfolio.

I will now hand it over to Abhishek to present our financial updates.

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Abhishek Agrawal

Chief Financial Officer (CFO)

Thank you, Ritwik and good morning, everyone. Let me take you through the financial highlights for Q3.

- We grew both our Revenue from Operations and Net Operating Income ('NOI') by 9% YoY to a record ₹1,022 crores and a record ₹829 crores, respectively. The increase was mainly driven by new lease-up at high re-leasing spreads, contracted rent escalations and new buildings delivered and acquired during the period.
- Our hotel segment NOI grew by 16% YoY, due to an occupancy uptick of around 400 bps to 59% as well as an ADR growth of 13%.
- We declared distributions of ₹559 crores or ₹5.90 per unit for the quarter, representing a 13% increase YoY. This increase was driven by an uptick in our NOI as well as positive working capital changes, which was partially offset by an increase in our interest costs.
- During the quarter, we successfully raised ₹1,000 crores of coupon-bearing bonds at 7.73% to repay certain existing higher-cost debt and saved around 70 bps in annual interest.
- Post this refinance, our net debt book totals over ₹19k crores, implying a 32% leverage ratio and a 7.93% average in-place interest rate. 51% of our total debt book is at floating rates, positioning us well to take advantage of any rate cuts in the future.

Lastly, on the forward financial outlook

- We remain on track to achieve our FY2025 guidance. We continue to expect our NOI to be in the range of ₹3,215 to ₹3,345 crores and our distributions to be in the range of ₹22.40 to ₹23.10 per unit. At midpoint, this guidance implies 10% YoY growth in NOI and 7% growth in DPU.
- While we will provide detailed guidance for FY2026 during the next quarterly call, I want to highlight that we are confident of delivering an even stronger performance during the next year. This is in line with our earlier commentary regarding Embassy REIT being on an exponential multi-year growth cycle. We look forward to sharing more with you at the end of this financial year.

With this, let's now move to Q&A please.

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QUESTION & ANSWERS SESSION

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

Moderator: The first question comes from the line of Puneet Gulati from HSBC.

Puneet Gulati: Congratulations on a decent uptick in DPU. My first question is, while NOI growth looks strong, we are seeing some bit of weakness on the other side. Even the PLFs have been lower, while you talked about tariffs being lower last time, but PLFs continue to be lower. Can you comment a bit on what's happening there?

Abhishek Agrawal: On the solar portfolio, as mentioned during our guidance in the first quarter, this year the total revenue will be lower from solar because of the lower tariffs. Also, this is a seasonal business and during the third quarter, there were unseasonal rains because of which the units generated were lower, which actually doubled up the decrease, but this will flatten going forward.

Puneet: So, it's sharply lower 20% down to 14.4%, in PLF terms. Just wondering, is it just rains or anything else?

Abhishek Agrawal: It is because of unseasonal rains and the tariffs. Both of these taken together.

Ritwik B: Yes, it's a bit of a double whammy, and it's an unfortunate thing, but we can't get around it right now. It's just the way it is. Hopefully, there is sort of an uptick as we head into next year.

Puneet: Okay. Second is on the working capital side, some bit of support came from the working capital as well. If you can talk a bit about what are the elements, possibly the deposits? I mean how much of deposits would have contributed to the working capital? Some colour would be good.

Abhishek Agrawal: Puneet, there are a couple of reasons because of which the working capital went up. One, during this current year, we paid the property tax between Q1 and Q2. While last year, we paid property tax in Q3 also. Second, as you rightly said, the security deposits that we received for all the leasing that was done in Q1 of this year and Q4 of last year. So, these 2 are the big components because of which the working capital increased.

Puneet: How much of that was deposits roughly, if you can quantify?

Abhishek Agrawal: You could say, the total increase in deposits from Q3 this year to Q3 last year is around ₹60 crores, and the impact of property tax is almost the balance.

Puneet: Okay, understood. And thirdly, if you can also talk about Embassy Splendid TechZone in Chennai, which is also going to commission by June 2025. What is the status of leasing there?

Ritwik B: Chennai, for us, is always sort of a strategic kind of growth market that we wanted to enter. It obviously took a long time to have this deal come to fruition. The pipeline is pretty robust. We're definitely looking at close to 3 or 4 major players, GCC driven, who are looking at the buildings. So, I think the onus is really right now on building out a pre-lease in the area of possibly around 500k sf. We were hoping that we could probably get some of that in Q3 but, some of the discussions have obviously slipped into Q4. So hopefully, by the end of this financial year, we will have a positive update on that. But yes, look, there is demand. The blocks are coming online. We're not going to stop on the development front.

I think there is just too much happening in the Indian leasing market for us to sort of slow down on development, Chennai is no exception to that. And I think one of those conversations will definitely pay off. There is financial services, telecommunication, coworking, so a bunch of people who are pretty interested.

Puneet: So, half of it would be leased out before it is ready?

Ritwik B: We are in the midst of that.

Puneet: Okay. And there was also an interesting comment of 388k sf being renewed at higher-than-market rates. Can you comment upon how high versus the market and specifically call out what those assets are? Also, Abhishek, on the lower 'Other income', some thoughts there would be useful? That's it from my side.

Abhishek Agrawal: On the 'Other income' side, what has happened is one, during the previous quarter we had received certain income tax refunds which were unaccounted in the books which had come in as other income. Secondly, there was certain scrap sale income. And thirdly, a big component, was the interest which we were receiving from M3. You will recall that in Embassy Manyata, we had one M3 project for which we were receiving interest. Now that the project is delivered, the interest component is gone.

Ritwik B: And on the renewals of the 388k sf, they were at 8% higher than market rents. Effectively across 6 deals, I'd say the biggest one that we saw was a tenant at Embassy GolfLinks that has been a big part of the portfolio. We also had another tenant in FIFC, renewed 150k sf. Beyond that, you have got a couple of others as well. I don't want to go down completely name by name, but if you just get a sense of some of the big guys, including a VC firm in Express Towers. There are clearly people who are looking to keep the marquee spaces and continue to have us as landlords.

Puneet: And basically, they are willing to pay higher rents than what is available in the market?

Ritwik B: Look, it's the usual story, right? At this point in time, there is a scarcity of high-quality spaces. So where would you go? This is sort of the strategic relationship building, you try keep your marquee tenants. You make sure you give them what they want. And at some point, they will keep paying the rents that are higher than the market. You have to understand, these are not expensive propositions for the calibre of the companies we are talking about.

Amit Shetty: Probably just to add to that Puneet, the entire absorption in the country today stood at about 45 msf on net absorption. And the net supply that came into the market was about 49 msf. Thereby, we've seen that rental rates are getting pushed in key micro markets. And some of these marquee assets that we control, we're seeing great demand and thereby, almost nil vacancy. And hence, some of these renewals are getting renewed at higher-than-market price.

Moderator: The next question comes from the line of Satinder Singh from Eon Infotech Limited.

Satinder Singh: Welcome back, Ritwik. My first question is regarding the new leases and the pre-releases. This quarter has been relatively softer compared to the quarters before. So, anything to read in this or should one see this just as a one-off and in Q4 the leasing should be firing again?

Ritwik B: Satinder, nice to hear from you, and thank you for the wishes. I just want to make it very clear to the market that, this is not a soft quarter for us. We had conversations that just have slipped into Q4. And we feel that none of the trends have changed and we're seeing that this is still a GCC market, as evidenced in the leasing that we've done. It's effectively very much a non-SEZ market, which is most of the leasing that we have done. And overall, there's just been a tremendous amount of momentum that's just going to be pushed into Q4. We have from a quarter ago, upped our leasing guidance from 5.4 msf to 6.5 msf, and we are pretty confident that we are going to get there. So no, there's nothing to read into this at all. I think the one big delta that has played a little bit of a role in the numbers looking the way they are is that last year, at this time, we did 3 major pre-leases that, clearly, gave a pretty big boost to our leasing number.

The pre-lease pipeline for us continues to be extremely solid, extremely robust. So look, it's difficult managing a business and reporting it every quarter, particularly when you're looking at long-dated leases, just a lot of things need to get done. Sometimes it's just the numbers come out the way they are, but it doesn't belittle the momentum that we have in the business or anything else that impairs the way we run it or just the outlook.

The way I think about this year, it's going to be a great year for Indian leasing again. The office market is doing extremely well, and we will continue to see that come into our portfolio as well at some point, this is why we are doing the development. This is why eventually we will be on lookout for growth. So no, there's nothing to read into it at all. And I think everybody should take comfort from the fact that we are actually very stable and doing very well.

Satinder Singh: That's very good to hear. About the SEZ denotification, so any outlook on that, where we stand and what we see, the road ahead for the quarter?

Amit Shetty: Satinder, we've denotified (or demarcated) about 6.4 msf, and we're on track to denotify (or demarcate) another 0.4 msf. And we've leased a significant part of whatever we've denotified (or demarcated) and at very high spreads. So, the process has become simpler. We know the process, having denotified (or demarcated) about 7-odd msf. And as and when we see that there is space that gets churned out, we'll denotify (or demarcate) that. The market is robust. We are very confident about our leasing engine. So all in all, it is a very positive story for us because we are getting the upside as well.

Satinder Singh: Any more in the pipeline that we plan to offer to the government for denotification?

Amit Shetty: Yes, about 0.4 msf is in the works for denotification (or demarcation).

Satinder Singh: Okay. And on data centres, are we looking at that as an opportunity in one of our parks or any view around that, given that GCC is the flavour of the time with robust themes that probably ties in well with what we do?

Ritwik B: Data centres, no Satinder, they're not on the agenda right now. We have looked at the feasibility of them. The economics of running one or building one for us right now just don't make sense. I think we'll stick to our bread and butter of office. And over time, we always continue to evaluate shifts in the market and the cost of actually building and operating different asset classes. But it's not on our radar right now and something we won't focus on.

Satinder Singh: Okay. That's clear. And on Embassy Quadron, your views on how we handle that asset, given that we are at about 39% occupancy. And also, there's a renewal coming up in this quarter, so any view on that? Are we likely to renew it? And about the property plans on this asset broadly?

Ritwik B: Yes, we have and going back, we said that we will be really transparent to the market on Embassy Quadron, and we have obviously got an IT services tenant there that, for all intents and purposes, will probably be an exit. Look, transparently, I think that's an asset that we have been looking to effectively monetize in some way, shape or form. It's clearly been sort of a market where we continue to evaluate alternatives. There are 2 options, right? One is either you sell it for a price that is agreeable to us or wait for the market to come back. But strangely enough, I think there is actually demand that we are seeing that is beginning to come up in Pune, in Hinjewadi, which has clearly sort of lagged the other eastern side of the market. But at this point in time, I'm not shy to admit that it's been a bit of a challenge in Embassy Quadron, but we continue to evaluate alternatives there.

Satinder Singh: On the hotel debt….. Embassy TechVillage, I was just looking at the supplementary data sheet and the GAV movement…. has not happened. So, is there work going on? What are our plans around the hotel, given that our other hotels are doing very well, and they integrate into our proposition very strongly, so just a view on that.

Ritwik B: Sorry, it's a little hard to hear you on that question. Can I suggest coming back in the queue and we'll answer that? You completely cut out there.

Satinder Singh: Yes, that's fine.

Moderator: We will take the next question from the line of Pritesh Sheth from Axis Capital.

Pritesh Sheth: Firstly, on other assets in Pune and Noida, what's the leasing outlook there? The assets are seeing, some kind of leasing every quarter, so by when can we reach 90% plus kind of occupancy in those assets?

And second question is on the hotels. While we are making some very healthy EBITDA margins, but occupancy is still probably lagging the market a bit. So, what's the strategy to drive further occupancy there?

Amit Shetty: So let me take the first question. See, from a Noida market perspective, one of our assets is almost at 100% occupancy. We are working very closely on Embassy Oxygen, like we mentioned in our earlier earnings disclosure as well. We've got a very robust pipeline for the asset. We are currently in talking stages for 3 large transactions, and hope to materialize these soon.

Coming back to Pune, we have always maintained at Embassy Quadron, there has been a little bit of an issue for us. However, again, with the uptick in the leasing momentum in the country, we are seeing some conversations that have actually started picking up. Embassy TechZone, for us, continues to lead the demand there, and we're very comfortable on the other two assets, that is Embassy Qubix and Embassy TechZone.

Ritwik B: On the hotels, there are a couple of things to consider. One is, when you say it's lagging the market, these are not weekend hotels. At the end of the day, these are business hotels, for which quality of F&B does sort of drive a fair amount of non-business traffic in, particularly if you look at what the Hiltons have done. So, the base case of the Hiltons' occupancy and where we would like to actually see that, we're sort of obviously touching the 70% to 70%-plus mark, which is historically the run rate that we have gone at.

The one that has required a little bit of surgery, if you will, is the Four Seasons because I think there has obviously been a little bit of pressure on that. But even there, we're actually seeing a fair turnaround. If you look at the recent results, it's at 50% occupancy. And we continue to be very focused on driving this higher. So, the plan is, we have got a new and a very efficient management team in place. And we're constantly looking at ways to increase occupancy.

This is obviously a very buoyant hotel market, and we are well aware of some of the tailwinds in that, across leisure, across business. And we've seen that. I think the business has gone up. We have done 20% EBITDA growth year-on-year as well. I think we just have to be persistent and keep chugging away to drive both occupancy as well as all the ancillary revenue that comes from everything, from conferences and F&B and so on and so forth.

Moderator: The next question comes from the line of Abhinav Sinha from Jefferies India.

Abhinav Sinha: Ritwik congrats on your elevation to CEO role and a good quarter to start with.

Ritwik B: Thank you.

Abhinav Sinha: On the occupancy front, for the company, see, we have seen some exits, which were untimely in the past, but how are the trends now? And how do you see this unfolding in FY'26, '27?

Ritwik B: Let me start, and Amit, maybe you can kind of kick in. We saw 700k sf of exits this quarter. This was majority SEZ-related, and there was legacy tech in Embassy TechVillage, and we obviously had IT services as well for the quarter. There is not that much that we are looking at for Q4. But there is always the risk of some unplanned exits that come up. We obviously budget the risk of exits and which is why we spend so much time thinking about early renewals as much as possible. And obviously, these are conversations that take place very, very earlier on with our entire leasing team.

I think the outlook for 2025, calendar year 2026, is definitely fairly good. We don't really have that many sorts of expiries coming up. And I think it's all in markets where we have a likelihood or a fair amount of likelihood of renewals. That's clearly the IT services market that probably is just the biggest risk. So, the rest of it, we don't see many expiries or exits coming out from the GCC side or the big companies for that matter. Amit, if you want to give colour on that, that'll be helpful.

Amit Shetty: Thanks, Ritwik. Just to start, for the 9 months ending and the last guidance that we've given as well, if you see about 3.5 msf was the total expiries that we spoke about, which increased to about 3.9 msf, of which about 0.3 msf was early renewals and just 0.1 msf was the unplanned exit. We have been very confident about our business. We have actually scrubbed our entire portfolio. So, we know, through our conversations with all our occupiers, their plans.

And overall, from an ITES perspective, our portfolio now stands at about 9%. And with this, these are all stabilized portfolio again. A global tech major has been a rather recent renewal in that 9%. Some of the other guys have been rather recent renewals in the portfolio. So forward looking, we don't see any sidewinds or any surprises for us, we are in a very comfortable position with 88% occupancy by the end of the year. I think we are very comfortable with the entire portfolio.

Ritwik B: So, there's 1.4 msf of exits coming up in FY'26. Probably there will be some likely exits out of that. But we feel good about managing the rest of it and backfilling what leaves.

Abhinav Sinha: Great. Ritwik, I have 2 more questions. Let me just list them out in the interest of time. So one is, how do you see the outlook for gearing? And in line with that, if you are thinking about some equity raise later down. So that's one.

Secondly, in line with your initial comments on the properties, seeing now some above market rentals and the occupancy on marquee buildings, it does appear that the CBD, quasi-CBD part is doing extremely well. So, does it, like, spread to the non-CBD parts or do you look forward to maybe adding some CBD assets as you go ahead?

Ritwik B: Let me start on the debt side. We have 32% leverage right now. And frankly, I've said this for literally 6 years at this point in time. We're always sort of pushing a boulder up here when it comes to our leverage, and we consider ourselves the best credit in Indian real estate. If you look at the other slide in our deck that basically talks about our interest costs, we effectively used to raise capital at, call it, 300 basis points to the G-Sec, that's halved to around 150 basis points, and we have raised like ₹17,000 crores of debt and the debt register we have is just immense.

But having said that, it's always a bit of a battle. I mean our gearing, in this interest rate environment, where you're constantly raising money at 8%, we always have to be on the lookout to refinance because it's short-term-ish paper. We'll be doing leases of 10 to 15 years and you are financing paper, call it, 3 to 5 years, and you consider that sort of a victory. It's a tough, tough business.

So yes, we keep an eye out on that. The debt team does an exemplary job of making sure that we have access to the best refinance terms possible. And if you look at the 7.73% cost that we did on the ₹1,000 crores, it's just an example of how we keep constantly rolling over paper at the best cost. That being said, look at the right time, if we can raise some equity, I'm not saying we're doing it right now or any of that, so please don't read into that, but yes, having an equity cushion at some point will obviously help, but that's also dependent on, market timings and just the use of proceeds. We do have an enabling resolution right now, and we will take a call at the appropriate time.

On the second question, CBD versus non-CBD, I think it is more of a question you could ask relative to Mumbai or some of the big commercial office stand-alone centers. I think it doesn't necessarily work institutionally for business park dominant grade A micro market quality that that we see. So we tend to just think about micro markets, particularly in cities like Bangalore or Chennai or any of these cities. I mean we are struggling, for instance, in Hinjewadi a little bit. But if you look at the northern corridor in Bangalore, and you look at Embassy Manyata's micro market, it's absolutely booming.

So, what we always look for is ensuring that we are in the right market, and we consider those to be sort of mini little CBDs. And within that, we are always making sure that the supply is non-threatening supply, which is why we spend so much time boosting our assets, redeveloping, refurbishing and just constantly making sure that the supply comes on. And look, if there's opportunity for us in other micro markets to ultimately grow and potentially acquire assets, we will certainly look at it.

Moderator: The next question comes from the line of Kunal Lakhan from CLSA.

Kunal Lakhan: Ritwik, congratulations on your elevation. Just one question from my side. So, when it comes to GCCs, what's the sense of getting in discussions with them considering the US policymaking currently and the philosophy there? Are you seeing any sense of, like, say, delay in the decision making or holding up signing off leases or in terms of, like, the outlook going ahead also? Any colour there would be helpful.

Amit Shetty: I just want to give you a little bit of a perspective from a country perspective and then bring it down to the GCCs. Last year, we saw gross absorption of about 74 msf, of which about 40% was driven by GCC demand. India happens to be the second largest hub for AI talent, and also one of the largest pools for data scientists and analytics, The IT talent has always been a record, and Bangalore kind of is pivotal in this talent pool.

Having said that, overall, the country is seeing robust leasing, again, led by GCCs. We don't see any softening or rather the demand's always been positive. Rather earlier this year, we saw 3 RFPs that have come out into the market, all led by GCCs. So, for us, it's been a very positive story, and we foresee, in our conversations with the experts in the industry, that this trend is going to continue for the next 3 to 5 years.

Ritwik B: Let me just add to that. I think let me just step back and look at the bigger picture. Our largest tenant is pretty much the world's largest bank by capitalization and they continue to expand. We are building out a complex in Embassy Manyata that's already pre-leased to a large Australian bank, and people's appetite just continues to be quite insatiable for Grade A sort of space. Of course, there will be movement around the quarter. And there might be sort of slight mild decision-making delays or whatever, but that's more operational than it actually is on broad-based themes and that India is kind of slowing down. We certainly don't see it on the leasing side. Sure, there can be decisions made on the kind of work you do and what that means in terms of AI and all that. But no, the broad tailwinds are very much intact.

Kunal Lakhan Sure, I mean I understand you've done great this year in entirety, but I'm just trying to understand, like, if there is any change in the narrative pre-election and post-election?

Ritwik B: No, no, we haven't seen that or maybe it's just too early to call.

Moderator: The next question comes from the line of Dhiraj Dave from Samvad Financial Services.

Dhiraj Dave: My one question would be basically, when do we expect to cross ₹6.9 DPU, which we declared in March 2020? That has been the highest distribution. So should we look forward to next year guidance given the kind of growth you see in GCCs? When will we achieve the peak quarterly distribution, which we achieved 5 years back?

Ritwik B: Look, that's an interesting question. At this point in time, we will stay away from commenting on that. I think for the last 5 years, we have really sort of toiled to ensure through a pandemic, high interest rates and everything, we have done a fantastic job giving you the distributions. And now we are entering the secular growth cycle that we think is certainly going to be beneficial from a DPU perspective, regardless of where interest costs are, simply on the fact that it's top line and revenue driven.

I can't tell you when that can happen based on the fact that this happened in March 2020. But suffice to say that if the 13% growth in distributions year-on-year is any sort of sign, we feel very good about the next couple of years, actually, in terms of the entire leasing outlook and the developments that are coming online. So, it is definitely a growth cycle for us, but I will stay away from commenting on exact sort of numbers at this point.

Dhiraj Dave: You have not answered, but you have answered my question. Yes, you answered it in the sense, that's fine, it was sufficient. I appreciate your constraint also.

My second question is this time, we see that the tax-efficient distribution component is almost 90%. So going forward, say, 2, 3 years, should we assume this Q3 distributions split to continue or do you see major change?, if you can give some direction on that.

Abhishek Agrawal: So Dhiraj, this is Abhishek. I think it's very difficult to say about the next couple of years because it depends on what is the profit each of these SPV is making and that determines what will be the dividend and how we are funding it and how the debt is available, whether at the REIT level or at the SPV level. But what we can say is you look at the number of this 9 months, and I think that will be the indication of the DPU split where we will land for this current full year. For the next couple of years, we can discuss when we give our guidance.

Dhiraj Dave: And I appreciate actually what you said in the difficult time, what kind of delivery you have done. I'm an investor for almost, like, 4, 5 years, and I appreciate the team's effort to serve the investors.

Ritwik B: Thank you, that means a lot.

Moderator: The next question comes from the line of Vishal Parekh from Kotak Alternate Asset Managers Limited.

Vishal Parekh: I wanted to check on the ETV hotels in terms of the construction spend. So, the last 2 years, we have spent less than about ₹100 crores. So, 12 months FY'24 and 9 months this year, our spend has been less than ₹100 crores. And then we are projecting a balance cost of about ₹700 crores plus, and with our estimated completion of March '26. I just want to understand, how are you all funding it? And do you think spending ₹700 crores is possible? Or is it like in a hotel, there will be a lot of spend even after the completion date?

Abhishek Agrawal: Vishal, we are funding the construction through debt, all our construction is funded through debt. Second, on the construction spend, what you said is right. What will happen in a hotel is that we keep on constructing, but we have certain portions which we will spend, even after the construction is complete, which is largely the retention and the unpaid amount. So yes, we will be able to do that.

Vishal Parekh: All right. And just on the debt piece, in a debt schedule, I don't see any sanction which has balance limits of, to the tune of ₹700 crores. So, is it like we keep taking short-term debt to fund the costs as and when they come, or do we take a sanction for the project overall?

Abhishek Agrawal: Vishal, what we have done is that we have estimated what will be our spend quarter-on-quarter. Based on that, we go ahead to the banks or raise bonds depending on our requirements. So, we take sanctions based on that. Not necessarily we take a sanction for the full project because each and every project will span over a period of 2, 3 years, and in some cases 4 years. So, we take based on the necessity that we have for the next 1 year.

Vishal Parekh: All right. And can we take that with the March '26 date for completion, quarter 1 of FY'27, would be the first year for operations or is there any delay from commercially operating the hotel per se?

Amit Shetty: Vishal, what will happen is there are 2 hotels there. One is the Hilton Garden Inn and other is the 5-star. So, we are expecting both of them the way you said. But then if there is any change, we'll come back to the market.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Embassy REIT, that concludes this conference.

Ritwik B: Thanks, everyone.

Moderator: Thank you for joining us, and you may now disconnect your lines.