

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 19, 2022 | Mumbai

Vikas Telecom Private Limited

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AAA/Stable**' rating to non-convertible debentures (NCDs) of Vikas Telecom Private Limited (VTPL, part of Embassy Office Parks REIT (Embassy REIT; rated 'CRISIL AAA/CCR AAA/Stable'). Embassy REIT is sponsored by BRE Mauritius Investments (part of the Blackstone group) and Embassy Property Development Pvt. Ltd (part of the Embassy group). It has 12 commercial assets (office parks and city-centric offices), six hotels (of which four are under construction) and a solar plant.

The ratings reflect the trust's comfortable loan-to-value (LTV) ratio driven by low debt and strong debt protection metrics, supported by a cap on incremental borrowings; and stable revenue and rent collection from the underlying assets, given the high-quality of the commercial assets, healthy occupancy, contractual rent escalations and geographical diversification. These strengths are partially offset by exposure to refinancing risks and susceptibility to volatility in the real estate sector, resulting in fluctuations in rental rates and occupancy.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Embassy REIT with its underlying SPVs and has applied the criteria for rating entities in homogeneous groups. This is because Embassy REIT has direct control over the SPVs and will support them during exigencies. Additionally, there is minimal structural subordination of cash flow, wherein the SPVs must mandatorily distribute 90% of their net distributable cash flow (after servicing of debt) to Embassy REIT, leading to highly fungible cash flow. Also, as per the Real Estate Investment Trust (REIT) Regulations, 2014, of Securities and Exchange Board of India (SEBI), the cap on borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the value of Embassy REIT's assets).

Loan from parent (Embassy REIT) of Rs 1,902 crore as on March 31, 2022 have been treated as equity since it is subordinated to the external borrowings and does not have a fixed repayment schedule and interest payment dates.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong debt protection metrics: Consolidated gross debt for Embassy REIT rose to Rs 13,301 crore as on June 30, 2022, from Rs 11,788 crore as of December 31, 2021. The increase in debt level was mainly due to acquisition of 3.56 lakh sq ft of office buildings at Embassy GolfLinks and CAM business of the park. Going forward the funds required for ongoing construction activities may further increase the consolidated gross debt. However, the debt protection metrics will remain strong with LTV and debt-to-EBITDA (earnings before interest, tax, depreciation, and amortisation) ratios expected to be comfortable at less than 40% and 5.5 times respectively. A low LTV ratio protects investors from the risk of decline in property prices and the consequent impact on refinancing.

Stable revenue of SPVs part of REIT: More than 95% of the revenue comes from 12 established and high-quality commercial assets and one solar park, with stable operations and track record of at least five years of rental collection. The acquisition of 3.56 million sq ft of office buildings at Embassy GolfLinks and CAM business of the park has further strengthened the stability of cash flow. Consolidated revenue was Rs 3,173 crore for fiscal 2022 as against Rs 2,560 crore for the corresponding period in fiscal 2021, supported by timely rental escalations as well rent collections from tenants. Rental collections from office occupiers were robust despite the pandemic, reflected in over 99% collection witnessed in fiscal 2022. Furthermore, the REIT renewed/entered into new agreements to the tune of 22 lakh square feet (sq. ft) during the fiscal 2022 at a re-leasing spread of 27%. Rentals have an upside potential on account of the superior asset and service quality, favourable locations in prime areas, healthy demand in the respective markets and competitive rental rates.

Strong tenant profile with a well-diversified portfolio: Embassy REIT owns and operates office spaces, a solar park and hotel properties spread out across prime areas of Bengaluru, Mumbai, Pune, and the National Capital Region. The group has a total of 428 lakh sq. ft of available office area with a healthy mix of operational area of 338 lakh sq. ft and under-construction assets. The commercial assets have robust occupancy, averaging 87% as on June 30, 2022, with a multinational occupier base, of which Fortune 500 companies account for 48%

Weakness:

Susceptibility to volatility in the real estate sector: Rental collection (key source of revenue) is susceptible to economic downturns, which constrains the tenant's business risk profile and, therefore, occupancy and rental rates. Emergence of competing facilities in the vicinity could also have the potential to cannibalise tenants or rental rates. However, we note Embassy REIT's office rental collections for the fiscal 2022 remained robust at over 99%.

Exposure to Refinancing risk: All NCDs issued by the REIT have bullet payments at the time of redemption, thereby exposing the REIT to the risk of refinancing. However, the risk is mitigated by the availability of call option in NCDs, healthy consolidated leverage and extensive experience of the management.

All the NCD instruments have multiple call options available six months prior to the final maturity, which provides the trust with sufficient time to arrange funds or refinance the NCDs prior to the due date. Further, SPVs of REIT have the flexibility to raise lease rental discounting (LRD) loans from banks for the purpose of refinancing the NCDs, thereby giving access to large pool of capital from banking sector. Further, new avenues of capital are available in the form of investments from pension funds, insurance companies and foreign portfolio investors (recently allowed by the respective regulators), which mitigates refinancing risk to some extent.

Liquidity: Superior

Liquidity is likely to remain supported by stable cash flows from the underlying assets. The debt level remains moderate for the REIT. The NCDs are non-amortising, exposing the debenture-holders to refinancing risk. However, the conditions around redemption provide the REIT with sufficient time to arrange for refinancing. Furthermore, consolidated debt at the REIT level is not expected to exceed LTV ratio of 40%, protecting investors from the risk of decline in property prices and the consequent impact on refinancing. As on June 30, 2022, REIT has a cash balance of Rs 124 crores to support its day-to-day operations as well as has sanctioned undisbursed debt of Rs 1,014 crores for ongoing construction activities.

Outlook: Stable

CRISIL Ratings believes Embassy REIT will continue to benefit from the quality of its underlying assets over the medium term.

Rating Sensitivity Factors**Downward Factors**

- Depreciation in the value of the underlying assets or higher-than-expected incremental borrowings, resulting in LTV ratio of over 40%
- Covid-19 led disruption in micro market demand dynamics leading to decline in occupancy level below 85% on a sustained basis
- Significant delay in the completion and leasing of under-construction assets
- Any non-adherence to the structural features of the rated debt

About the Company

VTPL is a 100% owned subsidiary of Embassy REIT. It, along with Sarla Infrastructure Pvt. Ltd (SIPL), owns and operates Embassy TechVillage, Bengaluru. The commercial complex is spread over 84.05 acres consisting of 72 lakh sq. ft. of completed office premises, 19 lakh sq. ft. of under-construction office space and a proposed hotel of 518 keys. Of the total operational area of 72 lakh sq. ft., 61.4 lakh sq. ft. is housed under VTPL, and has occupancy of 99.3% as on June 30, 2022. The under-construction area of 19 lakh sq. ft. and proposed hotel is also housed under VTPL.

About the Trust

Embassy REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's Real Estate Investment Trust Regulations, 2014, as amended. Embassy REIT is sponsored by BRE Mauritius Investments (part of the Blackstone group) and Embassy Property Development Pvt Ltd (part of the Embassy group). It has 12 commercial assets (office parks and city-centric offices), six hotels (of which four are under construction) and a solar plant. Embassy REIT's portfolio of assets are held through the following SPVs:

Indian Express Newspapers (Mumbai) Pvt Ltd (IENMPL) owns and operates a commercial property, Express Towers, in Nariman Point, Mumbai. The property has been operational for over four decades and has a total leasable area of 4.7 lakh square feet (sq ft), of which 78% was occupied as on June 30, 2022

Quadron Business Park Pvt Ltd (QBPL) owns and operates a commercial information technology (IT) park, Embassy Quadron, in Hinjewadi, Pune. The property has been operational since 2010 and has a total leasable area of 18.9 lakh sq ft, of which 50% was occupied as on June 30, 2022. It also owns and operates mixed-use development, consisting of office and retail space and a hotel in North Bengaluru. The property has a total leasable area of 2.5 lakh sq ft, of which majority is yet to be leased. The hotel, consisting of 230 rooms, is run under the Four Seasons brand.

Qubix Business Park Pvt Ltd (QBPL) owns and operates a commercial IT park, Embassy Qubix, in Hinjewadi. The company has a track record of seven years in lease rental collection. Of the total leasable area of 14.5 lakh sq ft, 90% was leased as on June 30, 2022

Earnest Towers Pvt Ltd (ETPL) owns and operates 3.6 lakh sq ft of First International Finance Centre (FIFC) in Bandra Kurla Complex, Mumbai, of which 86% was occupied as on June 30, 2022

Vikhroli Corporate Park Pvt Ltd (VCPPL) owns a commercial property, Embassy 247, in Vikhroli, Mumbai. It has been operational for eight years and has total leasable area of 11.9 lakh sq ft, of which 84% was leased as on June 30, 2022

Galaxy Square Pvt Ltd (GSPL) owns and operates an IT park, Embassy Galaxy, in Sector 62, Noida. The company has a track record of seven years in lease rental collection, and 89% of the entire leasable area of 13.6 lakh sq ft was leased as on June 30, 2022

Oxygen Business Park Pvt Ltd (OBPPL) owns and operates a commercial IT park, Embassy Oxygen, in Sector 144, Greater Noida. The property is part of the Oxygen Boulevard IT Special Economic Zone and has been operational for six years. The property has completed area of 25.2 lakh sq ft, of which 73% was leased as on June 30, 2022, while around 7.0 lakh sq ft is under development.

Manyata Promoters Pvt Ltd (MPPL) owns and operates Embassy Manyata Business Park, Bengaluru. The commercial complex is spread over 120 acres. The company has developed around 117.5 lakh sq ft, of which 87% was leased as on June 30, 2022, while around 17.0 lakh sq ft is under development and 14.0 lakh sq ft is proposed to be developed. The company has also recently launched a five-star and a three-star hotel with 266 rooms and 353 rooms, respectively, under the Hilton brand.

Embassy Energy Pvt Ltd (EEPL) owns and operates a solar project, with installed capacity of 100 megawatt (MW). The park is spread over 465 acres across multiple villages in Karnataka. It has executed power purchase agreements for over 85% of the total capacity for supplying electricity to office parks and hotels of the Embassy group in Bengaluru.

Umbel Properties Pvt Ltd (UPPL) owns and operates the Hilton hotel at Embassy Golflinks, along Intermediate Ring Road (IRR), Bengaluru. The hotel, consisting of 247 rooms, has been operational since 2014 and had an occupancy rate of 69% as on June 30, 2022. The hotel was temporarily closed in accordance with state government guidelines following the lockdown and subsequently reopened by mid-June 2020.

Embassy Pune Techzone Pvt Ltd (EPTPL), on a standalone basis, owns an office space, Embassy Techzone, in Hinjewadi. Of the total area of 21.6 lakh sq ft, 84% was leased as on June 30, 2022, while 9.0 lakh sq ft is under development and 24.0 lakh sq ft is proposed to be developed.

Golflinks Software Park Pvt Ltd (GLSP) was incorporated in 2000 for developing a software technology park, Embassy Golflinks, on Intermediate Ring Road. The company has developed around 31 lakh sq ft, of which 99% was leased as on June 30, 2022

Vikas Telecom Pvt Ltd (VTPL) and Sarla Infrastructure Pvt Ltd (SIPL) own and operate Embassy Tech Village, Bengaluru. The commercial complex is spread over 84.05 acres consisting of 72 lakh sq ft of completed office premises; 19 lakh sq ft of under-construction office and a proposed hotel of 518 keys. Of the total operational area of 72 lakh sq ft, ~99% was leased out as of June 30, 2022

Key Financial Indicators (Consolidated- Embassy REIT; CRISIL Ratings adjusted)

Particulars	Unit	2022	2021
Revenue from operations	Rs.Crore	3,173	2,560
Profit After Tax (PAT)	Rs.Crore	888	699
PAT Margin	%	28.0	27.3
Adjusted gearing	Times	0.47	0.39
Interest coverage	Times	2.92	3.33

Key Financial Indicators (Standalone- VTPL; CRISIL Ratings adjusted)

Particulars	Unit	2022	2021
Revenue from operations	Rs.Crore	669	728
Profit After Tax (PAT)	Rs.Crore	(1)	(108)
PAT Margin	%	-	14.8
Adjusted gearing*	Times	0.95	0.71
Interest coverage*	Times	4.61	1.30

*Adjusted for loans from parent (Embassy REIT)

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible debentures*	NA	NA	NA	500	Simple	CRISIL AAA/Stable

*Proposed and yet to be placed

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IENMPL	Full	100% subsidiary

QBPL	Full	100% subsidiary
QBPPPL	Full	100% subsidiary
ETPL	Full	100% subsidiary
VCPPPL	Full	100% subsidiary
GSPL	Full	100% subsidiary
OBPPL	Full	100% subsidiary
MPPL	Full	100% subsidiary
EEPL	Full	100% subsidiary
UPPL	Full	100% subsidiary
EPTPL	Full	100% subsidiary
VTPL	Full	100% subsidiary
EOVPL	Full	100% subsidiary

Annexure - Rating History for last 3 Years

		Current		2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	500.0	CRISIL AAA/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties
CRISILs rating criteria for REITs and InVITs
Criteria for rating entities belonging to homogenous groups
CRISILs Criteria for Consolidation

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