

## Rating Rationale

July 13, 2023 | Mumbai

### Embassy Office Parks Reit

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

#### Rating Action

Rs.550 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Rs.800 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.1000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.3100 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.300 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.1500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.2600 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.700 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Corporate Credit Rating	CRISIL AAA/Stable (Reaffirmed)

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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 the Rs 550 crore proposed non-convertible debentures (NCDs) of Embassy Office Parks REIT (Embassy REIT) while reaffirming its rating on the Rs 10,000 crore NCDs and corporate credit rating at 'CRISIL AAA/Stable'. The proposed NCDs are expected to be utilised towards – a) infusion of shareholder loan into SPV for refinancing of existing loan of SPVs or for capital expenditure and working capital requirement of SPVs, b) repayment of REIT level NCDs.

The ratings continue to reflect the trust's satisfactory loan-to-value (LTV) ratio driven by moderate debt and healthy debt protection metrics, supported by a cap on incremental borrowings. Further, stable revenue and rent collection from the underlying assets, healthy occupancy, contractual rent escalations and geographical diversification support the leverage levels. While the LTV has increased in the recent past, CRISIL Ratings expects prudent debt management by Embassy REIT and leverage level to come down gradually. The rating continues to factor in exposure to refinancing risks and susceptibility to volatility in the real estate sector, resulting in fluctuations in rental rates and occupancy. The refinancing risks are expected to be mitigated by proactive refinancing strategies. Embassy REIT refinanced Rs 5,340 crore of debt at an average rate of interest of 7.9% p.a. in fiscal 2023.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Embassy REIT with its underlying special purpose vehicles (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).

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:

**Satisfactory debt protection metrics:** Consolidated gross debt rose to Rs 14,805 crore as on March 31, 2023, from Rs 12,101 crore as of March 31, 2022. The increase in debt level was mainly due to NCDs of Rs 1,000 crore raised for the purpose of acquisition of 4 lakh sq. ft in its joint venture entity Embassy Golflinks, acquisition of Embassy business Hub with exclusive ownership rights to around 14 lakh sq. ft and bank debt raised for capital expenditure (capex) requirements at SPV level. Going forward debt-funded capex or potential acquisitions may further increase the consolidated gross debt. However, in line with management articulation, the gearing levels are expected to be maintained or brought down in the medium term. A lower LTV ratio protects investors from the risk of decline in property prices and the consequent impact on refinancing.

**Stable revenue of SPVs held by the REIT:** More than 90% 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. Consolidated revenue was Rs 3,420 crore for fiscal 2023 as against Rs 2,963 crore for fiscal 2022, supported by improvement in performance of the hospitality segment, including commencement of operations at Hilton and Hilton Garden Inn at Embassy Manyata and incremental rentals from 11 lakh sq. ft of area added in Embassy TechVillage. The REIT renewed/entered into new agreements to the tune of 51 lakh sq. ft for fiscal 2023 at a re-leasing spread of ~16%. 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 450 lakh sq. ft of available office area with a healthy mix of operational area of 343 lakh sq. ft and under-construction assets. The commercial assets have robust occupancy, averaging 86% as on March 31, 2023, with a multinational occupier base over 230 tenants across industries, of which Fortune 500 companies account for 47%.

##### Weaknesses:

**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. Top 10 tenants and technology sector contribute to 37%

and 38% of gross occupied area, respectively, as on March 31, 2023, exposing the REIT to moderate concentration risk. Further, as on March 31, 2023, 27% of the leased area will be due for renewal between fiscals 2024 and 2027. While majority of the tenants are established corporates and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time. Emergence of competing facilities in the vicinity could also have the potential to cannibalise tenants or rental rates. These could adversely impact cash flow, and hence, will be key rating sensitivity factors.

**Exposure to refinancing risks:** All NCDs issued by the REIT have bullet payments at the time of redemption, thereby exposing the REIT to the risk of refinancing. While the REIT has staggered the bullet repayment timelines, active and timely treasury management remains essential. The risk is mitigated by the availability of call option in NCDs, healthy consolidated leverage and experience of the management.

All the NCD instruments have multiple call options available four to 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 financial institutions. Further, new avenues of capital are available in the form of investments from pension funds, insurance companies and foreign portfolio investors, which mitigates refinancing risk to some extent.

#### **Liquidity: Superior**

Liquidity is supported by stable cash flows from underlying assets. Debt level remains moderate for the REIT with LTV at 28.8% as on March 31, 2023 (as per external valuation). 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, LTV of the REIT is expected to remain well below 40%, protecting investors from the risk of decline in property prices and the consequent impact on refinancing. As of March 31, 2023, Embassy REIT had a cash balance of Rs 343.6 crore to support its day-to-day operations as well as undisbursed debt of Rs 490.7 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:**

- Decline in the value of the underlying assets or higher-than-expected incremental borrowings, resulting in CRISIL Ratings sensitised LTV ratio of 40% or above
- Occupancy level declining below 85% on a sustained basis
- Significant delay in completion and leasing of under-construction assets or acquisition of assets of lower quality affecting portfolio health
- Any non-adherence to the structural features of the rated debt
- Any impact on independence of REIT operations due to but not limited to change in sponsorship of the trust or ownership of the REIT manager

#### **About the Company**

Embassy REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's REIT 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 13 commercial assets (office parks and city-centric offices), six hotels (of which two 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 sq. ft, of which 83% was occupied as on March 31, 2023

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 March 31, 2023. It also owns and operates mixed-use development, consisting of office and retail space and a hotel in north Bengaluru. The property Embassy One has a total leasable area of 2.5 lakh sq. ft, of which 60% was occupied as on March 31, 2023. 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, Pune. 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 March 31, 2023

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 91% was occupied as on March 31, 2023

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 93% was leased as on March 31, 2023

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 96% of the entire leasable area of 15.0 lakh sq. ft was leased as on March 31, 2023

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 67% was leased as on March 31, 2023, while around 7 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 114 lakh sq. ft, in addition to which 3.5 lakh sq. ft. is being upgraded. Of this area 89% was leased as on March 31, 2023, while around 35 lakh sq. ft is under development and around 4 lakh sq. ft is proposed to be developed. The company has recently developed a five-star and a three-star hotel with 266 rooms and 353 rooms, respectively, to be operated under the Hilton brand.

Embassy Energy Pvt. Ltd (EEPL) owns and operates a solar project with capacity of 100 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), in Bengaluru. The hotel, consisting of 247 rooms, has been operational since 2014 and had an occupancy rate of 62% as on March 31, 2023

Embassy Pune Techzone Pvt. Ltd (EPTPL), on a standalone basis, owns an office park, Embassy Techzone, in Hinjewadi, Pune. Of the total area of 30 lakh sq. ft, 65% was leased as on March 31, 2023, while 24 lakh sq. ft is proposed to be developed. Occupancy of this asset is lower

since additional area of ~9 lakh sq. ft. was completed in Q3 of fiscal 2023

Golflinks Software Park Pvt. Ltd (GLSP) was incorporated in 2000 for developing a software technology park, Embassy GolfLinks, on Inner Ring Road, Bengaluru. The company has developed 31 lakh sq. ft, of which 97% was leased as on March 31, 2023

Vikas Telecom Pvt. Ltd (VTPL) and Sarla Infrastructure Pvt. Ltd (SIPL) own and operate ETV, Bengaluru. The commercial complex is spread over 84.05 acres consisting of 73 lakh sq. ft of completed office premises, 23 lakh sq. ft of under-construction office space and a proposed hotel of 518 keys. Of the total operational area of 73 lakh sq. ft, 97% was leased out as on March 31, 2023

Embassy Construction Pvt. Ltd. (ECPL) is constructing and developing an integrated business park at Yelahanka, Hobli Bengaluru under the name of Embassy Business Hub. Embassy REIT acquired Embassy Business Hub for an enterprise value of Rs 335 crore with exclusive ownership rights to around 14 lakh sq. ft of leasable area upon full completion. Embassy Business Hub is an integrated business park in North Bengaluru and is expected to comprise total leasable area of around 21 lakh sq. ft upon full completion.

For the fiscal year 2023, profit after tax (PAT) was Rs 506 crore on a consolidated Total Income of Rs 3,564 crore against PAT of Rs 888 crore and consolidated Total Income of Rs 3,090 crore over the corresponding period of the previous fiscal.

#### Key Financial Indicators (Consolidated; CRISIL Ratings-adjusted)

For fiscal	Unit	2023	2022
Revenue	Rs crore	3,748	3,173
Profit After Tax (PAT)	Rs crore	582	888
PAT Margin	%	15.5	28
Adjusted gearing	Times	0.59	0.47
Interest coverage	Times	2.82	2.92

#### Any other information:

The terms and conditions of the NCDs are mentioned below:

##### Series II

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.0x$ .
- LTV of the REIT Group  $\leq 40\%$ .
- LTV of Secured Assets  $\leq 49\%$ .
- EBITDA of Mortgage Properties of EPTPL and Portfolio Assets of IENPL on an aggregate basis  $\geq$  Rs 225 crore

##### Series III

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.0x$ .
- LTV of the REIT Group  $\leq 40\%$ .
- LTV of Secured Assets  $\leq 49\%$ .
- EBITDA of Mortgage Properties of VTPL and Portfolio Assets of EEPL, on an aggregate basis  $\geq$  Rs 400 crore

##### Series IV

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.5x$ .
- LTV of the REIT Group  $\leq 40\%$ .
- LTV of the Mortgaged Properties of SIPL  $\leq 49\%$ .
- EBITDA of SIPL  $\geq$  Rs 50 crore (tested from FY23 on an annualized basis) and if the total indebtedness against Mortgage Property of SIPL exceeds Rs 400 crore, then EBITDA of SIPL  $\geq$  Rs 86 crore

##### Series V

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.5x$ .
- LTV of the REIT Group  $\leq 40\%$ .
- LTV of Secured Assets  $\leq 49\%$ .
- Total indebtedness against Operational Assets/EBITDA generated by Operational Assets  $\leq 7.0x$

##### Series VI

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.5x$ .
- LTV of Secured Assets  $\leq 50\%$ .

##### Series VII (Rs 1050 crore)

###### REIT level

- Net Total Debt / EBITDA of the REIT Group  $\leq 5.5x$ .
- LTV of Secured Assets  $\leq 40\%$ .

###### Asset Level

- Security cover  $\geq 2.0x$

##### Proposed NCDs of Rs 500 crore

###### REIT level

- Net Total Debt / EBITDA  $\leq 5.50x$
- Loan To Value  $\leq 40\%$

###### Asset Level

- Security cover  $\geq 2.0x$

##### Proposed NCDs of Rs 500 crore

###### REIT level

- Net Total Debt / EBITDA  $\leq 5.50x$
- Loan To Value  $\leq 40\%$

###### Asset Level

- Security cover  $\geq 1.75x$

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
INE041007035	Non-convertible debentures	9-Sep-20	7.25%	9-Oct-23	750	Complex	CRISIL AAA/Stable
INE041007043	Non-convertible debentures	27-Oct-20	6.70%	9-Oct-23	750	Complex	CRISIL AAA/Stable
INE041007050	Non-convertible debentures	15-Jan-21	6.40%	15-Feb-24	2,600	Complex	CRISIL AAA/Stable
INE041007068	Non-convertible debentures	7-Sep-21	6.80%	7-Sep-26	300	Complex	CRISIL AAA/Stable
INE041007076	Non-convertible debentures	18-Oct-21	6.25%	18-Oct-24	2,000	Complex	CRISIL AAA/Stable
INE041007084	Non-convertible debentures	18-Oct-21	7.05%	18-Oct-26	1,100	Complex	CRISIL AAA/Stable
INE041007092	Non-convertible debentures	5-Apr-22	7.35%	5-Apr-27	1,000	Complex	CRISIL AAA/Stable
INE041007100	Non-convertible debentures	5-Jun-23	7.77%	5-Jun-25	1050	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	450	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	50	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	500	Complex	CRISIL AAA/Stable

\*Yet to be issued

**Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IENTMPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
QBPPL	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
SIPL	Full	100% subsidiary
ECPL (w.e.f. March 31,2023)	Full	100% subsidiary
GLSP	Partial	Investment entity consolidated to the extent of 50%

**Annexure - Rating History for last 3 Years**

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable	26-05-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable		--		--	--
				06-04-23	CRISIL AAA/Stable	06-12-22	CCR AAA/Stable		--		--	--
				28-02-23	CRISIL AAA/Stable	17-03-22	CCR AAA/Stable		--		--	--
					--	20-01-22	CCR AAA/Stable		--		--	--
Non Convertible Debentures	LT	10550.0	CRISIL AAA/Stable	26-05-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	25-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable
				06-04-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	05-10-21	CRISIL AAA/Stable	21-09-20	CRISIL AAA/Stable	--
				28-02-23	CRISIL AAA/Stable	17-03-22	CRISIL AAA/Stable	24-08-21	CRISIL AAA/Stable	26-08-20	CRISIL AAA/Stable, Provisional CRISIL AAA/Stable	--
					--	20-01-22	CRISIL AAA/Stable	17-08-21	CRISIL AAA/Stable	05-08-20	CRISIL AAA/Stable	--
					--		--	15-06-21	CRISIL AAA/Stable	16-05-20	CRISIL AAA/Stable	--
					--		--	19-01-21	CRISIL AAA/Stable		--	--
					--		--	11-01-21	CRISIL AAA/Stable, Provisional CRISIL AAA/Stable		--	--
					--		--	08-01-21	CRISIL AAA/Stable		--	--

All amounts are in Rs. Cr.

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs rating criteria for REITs and InVITs</a>
<a href="#">CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties</a>
<a href="#">CRISILs Criteria for Consolidation</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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## Embassy Office Parks REIT

July 6, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to Embassy Office Parks REIT (EOPR or Embassy REIT) continues to factor in its diversified asset portfolio of commercial office space, hospitality, and renewable energy assets spread across Bengaluru, Mumbai, Pune, and the National Capital Region (NCR). The properties of EOPR are occupied by marquee clients, resulting in strong collection efficiency.

The occupancy level for Embassy REIT has moderated from 87% as on March 31, 2022, to 86% as on March 31, 2023, which is much lower than the pre-COVID-19 level of 92.8% as on March 31, 2020. Apart from COVID-19, reduced marketability of the special economic zone (SEZ) area and delayed decision-making by corporates to take additional space among global headwinds have impacted the occupancy level. Nevertheless, CARE Ratings Limited (CARE Ratings) takes note of the fact that most of the leases expired or expiring were yielding rentals significantly lower than the current market rates, and therefore, EOPR is likely to benefit from the mark-to-market (MTM) opportunity as and when the vacant spaces backfill. Despite a decline in the occupancy levels, the net operating income (NOI) has been on an increasing trend, aided by new leases at higher rentals and a sharp recovery in hospitality assets. As such, EOPR's ability to improve the occupancy levels and realise MTM gains will be a rating monitorable.

Since its launch, EOPR has demonstrated strong financial risk management, characterised by low loan-to-value (LTV), comfortable debt/earnings before interest, taxes, depreciation, and amortisation (EBIDTA), and debt-service coverage ratio (DSCR) levels. CARE Ratings also takes note of the debt-funded acquisition of Embassy Construction Private Limited by EOPR and has entered into a non-binding offer letter with the Embassy sponsor to acquire another commercial office space in Chennai. While CARE Ratings believes that the debt protection metrics are likely to remain strong, the funding pattern for the acquisition will be closely monitored.

The restrictions under the Securities and Exchange Board of India (SEBI) regulations, which limit the share of under-construction assets to less than 20% and net debt/gross asset value (GAV) to <49%, enhance credit protection.

These strengths far outweigh the refinancing risk associated with the non-convertible debenture (NCD) and term loan repayments at EOPR and its subsidiaries. Nevertheless, Embassy REIT has demonstrated raising of debt at competitive rates to refinance the debt. EOPR is also exposed to the execution and marketing risks associated with upcoming projects and the cyclical nature of the real estate and hospitality sectors.

### Rating sensitivities: Factors likely to lead to rating actions

**Positive factors:** Not applicable

#### Negative factors

- Net debt/GAV of more than 35%.
- Consolidated net debt/EBIDTA<sup>2</sup> of more than 5.5x.

### Analytical approach:

The analysis of Embassy REIT is carried out on a consolidated basis, which includes its subsidiaries and associates mentioned in Annexure-6. The consolidated approach is taken due to the strong operational, financial, and managerial linkages between the entities.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

<sup>2</sup> For the calculation of debt/EBIDTA, EBIDTA is calculated as defined in NCD documents. As per which, EBIDTA also include 50% of EBIDTA of Golflinks Software Park P Limited plus fitout rentals plus rental support income.

**Outlook: Stable**

The 'Stable' outlook reflects CARE Ratings' expectation of Embassy REIT to continue to maintain strong debt protection metrics, aided by stable occupancy levels.

**Detailed description of the key rating drivers:****Key strengths****Fairly diversified asset portfolio of Embassy REIT:**

EOPR's asset portfolio consists of commercial office space across four cities, hospitality, and a captive solar plant of 100 MW capacity. As on March 31, 2023, EOPR had 45 million sq ft (msf) of commercial space area, of which 34.3 msf is completed and 86% is occupied, 7.9 msf of under-construction space, while 2.8 msf is proposed development. The commercial space is diversified in Bengaluru, Mumbai, Pune, and the NCR region. EOPR also has completed hotels with an inventory of 1,096 keys and under-construction hotels of 518 keys in Bengaluru, apart from a 100-MW solar park located in Ballari, Karnataka. The commercial office space portfolio contributes nearly 90% of the REIT's total revenue. Diversification in asset class and geographies mitigates the micro-market and industry-specific issues to a certain extent.

**Healthy occupancy level of commercial assets and recovery in the hospitality segment:**

The occupancy levels of commercial office spaces remained healthy at 86% as on March 31, 2023, although moderated from 87% as on March 31, 2022. Of 4.9 msf of vacant space as on March 31, 2023, 3.5 msf lies in the SEZ. Areas in the SEZ are inherently witnessing delayed leasing. Embassy REIT has converted or is in the process of converting some of its SEZ space into non-SEZ, which is likely to enhance its marketability. Leasing is also impacted due to global headwinds amid recessionary trends, which has also delayed the capex decision of several global companies.

Another 4.4 msf of the area is due for expiry in FY24-FY25 (refer to the period from April 1 to March 31), which may impact the occupancy levels in the near term. Nevertheless, as informed by the management, there has been an increase in enquiries and the occupancy may improve in the medium to long term. Furthermore, most of the leases expired or expiring were old leases generating lower than the current market rates, providing reasonable MTM opportunity to Embassy REIT. The assets of EOPR are occupied by tenants with strong credit profiles, with almost half of the gross leasable area leased out to Fortune 500 companies. The satisfactory weighted average lease expiry (WALE) of seven years provides revenue visibility for the longer term. While the hospitality assets have been impacted severely by COVID-19, there is a sharp recovery in these assets.

While CARE Ratings continues to have a long-term positive outlook on commercial real estate, the short-term leasing prospects are impacted as corporates are hesitant to take up space in the SEZ area and due to global headwinds amid recessionary fears. While Embassy REIT is well poised to overcome such temporary phenomenon, its ability to maintain the occupancy levels will be closely monitored.

**Strong debt protection metrics of Embassy REIT:**

The debt protection metrics of EOPR, marked by an LTV of 28% and net debt to EBIDTA of less than 5.0x, remained comfortable, giving it headroom to raise additional debt to fund future growth plans. CARE Ratings takes note of the debt-funded acquisition of the commercial office space of 'Embassy Business Hub' and the non-binding offer letter entered into with the Embassy sponsor to acquire an asset, viz, Embassy Splendid Techzone in Chennai. CARE Ratings expects the above metrics to remain largely unchanged after the acquisition, although the mode of funding of the acquisition will be closely monitored.

**Key weaknesses****Execution risk associated with projects undertaken:**

EOPR plans to incur a capex of ₹4,214 crore, on a consolidated basis over the near to medium term, which is likely to be mainly funded with debt. While the execution risk will persist to timely complete the project, comfort is drawn from the successful track record of EOPR in executing such projects. As per CARE Ratings' estimates, the net debt/GAV and net debt/EBIDTA are expected to remain below 30% and 5.5x in the near to medium term.

**High refinancing risk:**

The debt raised by Embassy REIT and its subsidiaries are to be repaid in a bullet payment at the end of three to five years, exposing it to high refinancing risk. However, such risks are mitigated to an extent given the high financial flexibility arising from the low LTV, which provides ample headroom to raise additional debt and equity-raising possibilities. CARE Ratings also takes note of the demonstrated track record of EOPR refinancing several debts of itself as well as of its subsidiaries.

**Liquidity: Strong**

The liquidity of EOPR is superior owing to the strong debt coverage indicators, aided by minimal interim principal payments. While the bullet repayment exposes it to high refinancing risk, EOPR's low debt/GAV allows ample headroom to raise additional debt, including raising LRD loans in SPVs from banks for refinancing of NCDs. All the NCD instruments have multiple call options before the final maturity, which enables them to refinance the NCDs prior to the due date. Furthermore, restrictions imposed under REIT

regulations in terms of undertaking under-construction projects limit the cash outflow towards the capex. At the consolidated level, EOPR had cash and cash equivalents of ₹344 crore as on March 31, 2023.

### Environment, social, and governance (ESG) risks

From the ESG perspective, Embassy REIT has been taking several measures to address the concerns around it. Half of the energy consumption is in the form of renewable energy. Consistent efforts are being made to reduce water consumption, organic waste converter capacity increase, etc. All EOPR's buildings are USGBC LEED certified. Its assets were also awarded a five-star rating by the British Safety Council for Occupational Health and Safety. Almost 96% of leases signed are 'green leases' to reduce the environmental impact of property. On the governance front, 50% of the board comprises independent directors and there are adequate related party safeguards. The ESG due diligence has been completed for all the assets.

### Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Issuer Rating](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Debt backed by lease rentals](#)

[Real Estate Investment Trusts \(REITs\)](#)

[Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Real Estate Investment Trusts (REITs)

EOPR is India's first publicly listed real estate investment trust (REIT) sponsored by Blackstone (BRE Mauritius) and Embassy Property Development Pvt Ltd. As on March 31, 2023, Embassy REIT has a 45 msf portfolio of eight infrastructure-like office parks and four city centre office buildings in the cities of Bengaluru, Pune, Mumbai, and the NCR.

Embassy REIT's portfolio comprises 34.3 msf completed operating area, with an occupancy of 86% as on March 31, 2023. The portfolio also comprises a 1,096-key operational business hotel, a 518-key under-construction hotel, and a 100-MW solar park supplying renewable energy to park occupiers.

Brief Financials - Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	3,050	3,530
PBILDT	2,386	2,654
PAT	888	506
Overall gearing (times)	0.67	0.88
Interest coverage (times)	2.88	2.72

A: Audited. Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	Proposed	Proposed	Proposed	500.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (02-Dec-22)	-	-
2	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable				

LT: Long term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Issuer Rating-Issuer Ratings	Simple

**Annexure-5: Lender details**To view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of entities consolidated as of March 31, 2023**

S. No	Entity name	Shareholding %
1	Sarla Infrastructure P Ltd.	100%
2	Vikas Telecom Private Limited	100%
3	Indian Express News Papers (Mumbai) P Limited	100%
4	Quadron Business Park Private Limited	100%
5	Qubix Business Park Private Limited	100%
6	Earnest Towers Private Limited	100%
7	Vikhroli Corporate Park Private Limited	100%
8	Galaxy Square Private Limited	100%

S. No	Entity name	Shareholding %
9	Oxygen Business Park Private Limited	100%
10	Embassy Pune Techzone Private Limited	100%
11	Manyata Promoters Private Limited (Manyata)	100%
12	Embassy Energy Private Limited	20% (balance 80% by Manyata)
13	Umbel Properties Private Limited	100%
14	Embassy Construction Private Limited	100%
15	Golfinks Software Park Private Limited (EGL)	50% (through Manyata)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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