

Rating Rationale

May 26, 2023 | Mumbai

Embassy Office Parks Reit

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.800 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
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 proposed non-convertible debentures (NCDs) of Rs 800 crore of Embassy Office Parks REIT (Embassy REIT) while reaffirming the rating on the Rs 9,200 crore of 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) interim investments until a) can be undertaken.

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 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 Trust

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 12 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	2022	2021
Revenue	Rs crore	3,173	2,560
Profit after tax (PAT)	Rs crore	888	699
PAT margin	%	28	27.3
Adjusted gearing	Times	0.47	0.39
Interest coverage	Times	2.92	3.33

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 $\leq 50\%$.

Proposed NCDs of Rs 700 crore

REIT level

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

Asset Level

- Security cover $\geq 1.75x$

Proposed NCDs of Rs 800 crore

REIT level

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

Asset Level

- Security cover $\geq 2.0x$

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.

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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 levels	Rating assigned with outlook
INE041007035	Non-convertible debentures	9-Sep-20	7.25%	9-Oct-23	750	Simple	CRISIL AAA/Stable
INLE041007043	Non-convertible debentures	27-Oct-20	6.70%	9-Oct-23	750	Simple	CRISIL AAA/Stable
INE041007050	Non-convertible debentures	15-Jan-21	6.40%	15-Feb-24	2,600	Simple	CRISIL AAA/Stable
INE041007068	Non-convertible debentures	7-Sep-21	6.80%	7-Sep-26	300	Simple	CRISIL AAA/Stable
INE041007076	Non-convertible debentures	18-Oct-21	6.25%	18-Oct-24	2,000	Simple	CRISIL AAA/Stable
INE041007084	Non-convertible debentures	18-Oct-21	7.05%	18-Oct-26	1,100	Simple	CRISIL AAA/Stable
INE041007092	Non-convertible debentures	5-Apr-22	7.35%	5-Apr-27	1,000	Simple	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	700	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	800	Complex	CRISIL AAA/Stable

*Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IENMPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
ETPL	Full	100% subsidiary
VCPPL	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
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	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable	06-04-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable		--		--	--
				28-02-23	CRISIL AAA/Stable	06-12-22	CCR AAA/Stable		--		--	
					--	17-03-22	CCR AAA/Stable		--		--	
					--	20-01-22	CCR AAA/Stable		--		--	
Non Convertible Debentures	LT	10000.0	CRISIL AAA/Stable	06-04-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	25-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable
				28-02-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	05-10-21	CRISIL AAA/Stable	21-09-20	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**Links to related criteria**[CRISILs rating criteria for REITs and InVITs](#)[CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties](#)[CRISILs Criteria for Consolidation](#)[Understanding CRISILs Ratings and Rating Scales](#)

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