Embassy REIT

Q2 FY2023 Earnings Call

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CORPORATE PARTICIPANTS

Vikaash Khdloya – Chief Executive Officer (CEO)

Abhishek S Agrawal – Interim Chief Financial Officer (CFO)

Ritwik Bhattacharjee – Chief Investment Officer (CIO)

Abhishek Agarwal – Head of Investor Relations

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone. A very warm welcome to all for Embassy REIT's second quarter FY2023 Earnings Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions at the end of the presentation during the question-and-answer session. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference – Mr. Abhishek Agarwal, Head of Investor Relations for Embassy REIT. Sir, you may begin.

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Abhishek Agarwal

Head of Investor Relations

Thank you, operator.

Welcome to the Q2 FY2023 Earnings call for Embassy REIT. Embassy REIT released its financial results for the quarter and half year ended September 30, 2022 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, the financial guidance and any 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 guidance and information and there can be no assurance that we will be able to achieve the same.

Joining me today are Vikaash Khdloya, the CEO, Abhishek S Agrawal, the Interim CFO and Ritwik Bhattacharjee, the CIO. Vikaash will start off with business and industry overview followed by Ritwik and Abhishek. We will then open the floor to questions.

Over to you, Vikaash.

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Vikaash Khdloya
Chief Executive Officer (CEO)

Good morning and thank you all for joining us on the call. We have many encouraging trends and datapoints to communicate today.

We delivered yet another strong quarter with 1.6 msf total leasing, including impressive new leasing and pre-commitment activity. We launched 2.5 msf across new and redevelopment projects taking our total active development pipeline to 7.1 msf, the highest since our listing. We entered into non-binding discussions for potential acquisition of two properties across Bangalore and Chennai, totaling 7.1 msf leasable area. We continued to maintain our robust balance sheet with low 26% leverage, attractive 7.1% debt cost and 66% of debt book at fixed rates. And finally, we remain on-track with our FY2023 guidance and have delivered on our NOI growth and distributions. So, a solid quarter of business performance and we continue invest in growth. Our business and stock remain resilient and offers a compelling combination of yield, growth and value.

Amidst a challenging global macro environment, Indian office REITs have outperformed global peers. India's structural advantage as the 'global knowledge capital' and the preferred offshoring destination continues. The expanding offshoring demand from new and existing global captives is benefiting premium quality wellness oriented workspaces, and these are the hallmark of our portfolio and strategy. And it is encouraging to see a continued upward trend in 'back-to-office'. The physical occupancy in our properties is up 21% QoQ and is currently around 35%. Multiple announcements have recently been made by global and Indian corporate majors regarding their plans to significantly ramp-up their office utilization post the festive period.

Let me now update you on our leasing performance

We achieved 1.6 msf of total leasing in Q2 across 27 deals and expanded our occupier base to 223 by adding 15 new names to our rent roll. This 1.6 msf includes new leasing of 587k sf, at 19% re-leasing spreads and in fact 4% above market rents. We signed end-of-term renewals of 459k sf, mainly at our Pune and Noida properties, at 28% renewal spreads. We also successfully pre-committed 528k sf, mainly to ANZ in our under-development project M3 Block B at Embassy Manyata. With this, we ended Q2 with a stable occupancy of 87% and a promising 700k sf deal pipeline.

While Bangalore continues to drive India's office demand resurgence, we are also witnessing pick-up in activity in other cities. Continuing the trend from last quarter, the leases signed in Q2 span established sectors such as banking and financial services, high-growth sectors such as cloud infrastructure and fintech, as well as upcoming niche sectors such as renewables and healthcare tech. As you can see from our 1 msf pre-commitments to JP Morgan and ANZ in H1, global captives and banks continue to hire Indian talent and are progressing on RFPs to cater to their business needs. Further, global captives continue to expand and set up new centres in India driven by growth and transformation projects as well as cost and optimization needs. And while demand from services tech occupiers remain below historical numbers, the recent moderation in attrition and concerns around culture and productivity are both likely to accelerate back to office ramp-up and space take-up by these occupiers.

As you may recall, we had given a 5 msf leasing guidance for FY2023. We are happy to report that at mid-year we have already leased 3.4 msf, achieving around 70% of our annual guidance. Of the expected 3.3 msf expiries for FY2023, we have to-date successfully renewed 1.3 msf at 15% renewal spreads and expect a further 566k sf as likely renewals during the remainder of this fiscal. Additionally, we have secured 14% rent escalations on 2.7 msf in Q2. These contracted rent escalations and our mark-to-market rent potential are two significant growth drivers embedded in our business.

Next, an update on our ESG program

We continue to make progress on our 3-year roadmap across our 19 defined ESG programs. 100% of our operational portfolio is now certified for the highest standards of safety and wellness through a 5-star rating from the British Safety Council, one of world's leading health and safety organizations. We are also extremely proud to report that our industry leading ESG program and transparent disclosures have once

again been recognized by GRESB, the global standard in ESG benchmarking. In just our second year of participation, we were awarded with the highest 5-star rating for both our operational as well as development properties. Finally, our sustainable finance debt has now grown to ₹33 billion, around 25% of our overall debt book.

Our ESG program remains a core pillar of our business strategy, and we envision it as a key competitive advantage, both from the perspective of our occupiers as well as our investors.

Finally, moving to the outlook for Indian office

India office is highly differentiated from other global office markets. Unlike many other global cities, India office demand continues to be resilient. This is driven by India's unique positioning as the unmatched talent hub of the world combined with significantly lower rents of around $1-2 psf per month, even for prime office properties in gateway cities. While there are growing concerns of a slowdown in the developed markets, any recessionary environment in the respective home countries of global corporates, in our view, will only accelerate demand for India office. Past downturns have prompted global companies to further optimize costs and efficiency and offshore more work to India and we witnessed this playout post the global financial crisis as well. Occupier preferences have also changed in favor of high-quality, well-amenitized, sustainable spaces, resulting in consolidation of office demand with Grade A institutional landlords. We are well-positioned to capture this demand given our high-quality product, our overall business ecosystem offering and our robust development pipeline.

Even on the supply side, market continues to consolidate towards fewer and larger institutional quality landlords with strong balance sheets which are well-positioned to fund growth by accessing debt at competitive rates. Looking forward, we believe that the liquidity squeeze, rising interest rates and potential supply slippages on the one hand, and robust demand and flight to quality on the other, will further propel rent growth in our key micro-markets.

So, a great deal to be positive about our business amidst the overall macro environment – all trending in the expected direction laid out in our previous earnings calls. Let me now handover to Ritwik to expand further on our growth initiatives.

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Ritwik Bhattacharjee
Chief Investment Officer (CIO)

Thanks Vikaash. Good morning everyone. I'll provide a snapshot of key growth initiatives for Q2:

- We launched a 1.2 msf redevelopment project at Embassy Manyata at a yield on cost of 22%;
- We committed 468k sf in the under-construction M3 Block B project at Embassy Manyata, and we kickstarted the development of a new 0.7 msf office block in the same property; and
- We executed non-binding offer letters to acquire two office properties totaling 7.1 msf of leasable area in Bangalore and Chennai.

First, an update on our development portfolio

We continue to deliver state-of-the-art buildings and we are bringing forward our future development pipeline to cater to the momentum we foresee in office demand in the years to come, particularly in Bangalore.

This quarter, we have multiple updates on Embassy Manyata.

- We are pleased to announce our first-ever base-build redevelopment project to transform two of the earliest buildings D1 and D2. Both these building comprise 400k sf, and we aim to increase the current leasable area of these buildings to 1.2 msf. We have over 170% mark-to-market opportunity on these buildings, given the significantly below-market rents on expiring leases. Given the strategic location of the D parcel at the center of Embassy Manyata, we are confident that this redevelopment will help us achieve premium rents. We estimate this building to cost ₹6 billion and we plan to deliver it by December 2025. This project is highly accretive, and we expect it to deliver a yield on cost of 22%. We have already finalized building designs, secured the environment approval for demolition and building approvals are in progress.

- Next, we are witnessing significant leasing traction for our 600k sf M3 Block B. We are pleased to announce that ANZ, a premier banking conglomerate, has pre-committed to 468k sf or 78% of this upcoming building to meet their business needs, and they have kept the balance 133k sf area under option for future growth. While the development of this project has been delayed due to the non-availability of Transferable Development Rights ('TDR') and other related approvals, we are seeing progress on these approvals. We expect to deliver this block in mid-2025.

- Finally, given the leasing traction for both completed properties and under-construction developments at Embassy Manyata, we are launching a new 0.7 msf office block L4 in this business park. Together with the existing developments, including the 1 msf of M3 Block A, Embassy Manyata will now have 3.5 msf projects under-development to cater to occupier demand.

Besides these, we are on schedule to deliver our other ongoing developments of 1.9 msf in Embassy TechVillage ('ETV'), located at Outer Ring Road in Bangalore and 0.7 msf in Embassy Oxygen, located at Sector 144 in Noida. We are close to completing the Hudson and Ganges towers, a 0.9 msf office block in Embassy TechZone in Pune's Hinjewadi micro-market. We expect to receive the occupancy certificate by the end of October and are seeing early demand traction for the project as demonstrated by a 60k sf pre-commitment by a global captive in the automotive electronics and tech sector.

Our total development pipeline now aggregates 7.1 msf, the highest since our listing. Given our track record of bringing projects to market on time and within budget, we view this pipeline as one of the biggest drivers in our growth roadmap. I would like to highlight that over 80% of these projects are in Bangalore, the city which continues to lead India's office absorption. Our total committed capex for these 7.1 msf of developments is ₹32 billion, of which ₹22 billion is pending cost to be spent. The pipeline is expected to add over ₹8 billion to our NOI upon stabilization, an accretion of 30% over FY2023 mid-point NOI guidance. Given capex debt at around 8.5%, land component of these developments fully paid for and an attractive rent profile, especially in Bangalore, our development portfolio sets us up for impressive

yield on cost spreads. Additionally, our GRESB sector leader ranking amongst Asian office peers for our development portfolio reflects the pedigree of our on-campus development programme.

Next, an update on our hotels and total business ecosystem

Buoyed by a rebound in business travel, our four operating hotels continued to perform strongly in Q2. The average occupancy increased to 49% and ADRs grew by 57% YoY. Consequently, our Q2 hotel EBITDA of ₹250 million tracks well ahead of our guidance. Even though our hotel business contributes to less than 5% of our total NOI, our hotels are immensely complementary to our office offering and drive office demand. We continue to invest in the development of our new 518 key dual-branded Hilton hotels at ETV, and we are on track to deliver these hotels by 2025.

Our other asset upgrade projects are progressing on schedule and within budgets. Our investments to upgrade the amenities, wellness and sustainability features are pivotal in widening the moat of our properties. Our upgrade of the infrastructure at Embassy Manyata serves as the best case study of the above. Since we listed, we have invested in a public flyover, skywalks, 619 key Hilton hotels, a 60k sf one-of-its kind convention center, and an exciting 86k sf retail and F&B area that we plan to launch later this year. These upgrades have clearly differentiated Embassy Manyata and over the last 24 months, we have successfully signed 681k sf of new leases with over 20 occupiers at approximately 4% premium to market rents.

Finally, an update on our acquisitions

Yesterday, we executed non-binding offer letters with Embassy Sponsor to acquire two high-quality properties in Bangalore and Chennai, which total 7.1 msf. Approximately 3.7 msf of these properties is completed or nearing completion and 54% of this is currently leased or pre-committed to renowned global occupiers in banking, financial services, healthcare technology and IT services sectors.

The properties for which we executed the offer letters are the 5 msf Embassy Splendid TechZone business park in Pallavaram, Chennai and the 2.1 msf Embassy Hub property in Yelahanka, North Bangalore. We believe these integrated office properties add meaningful scale to and are complementary to our existing office portfolio. The Embassy Splendid TechZone property enables us to access a new growth market in Chennai, while Embassy Hub consolidates our position with an entry into a new micro market in North Bangalore. While the Chennai property was offered through a ROFO in January 2022, the Bangalore property is a new opportunity.

The above non-binding discussions have a 120-day exclusivity period and are subject to further diligence, negotiations, funding and approvals from regulators, Board and Unitholders, as may be applicable. We will keep you posted as we progress. We are also evaluating certain other acquisition opportunities from third parties.

We remain focused on prudently financing any potential acquisition through an optimal debt equity mix to ensure we deliver value to our Unitholders. We continue to closely monitor the capital markets to identify suitable financing channels and transaction windows. As you are all aware, market conditions are currently challenging, and we will look to de-risk any funding requirements, both for acquisitions and the development pipeline.

Over to Abhishek now for our financial updates.

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Abhishek S Agrawal
Interim Chief Financial Officer (CFO)

Thanks, Ritwik. Good morning everyone. Key financial highlights for Q2 include:

- We grew Net Operating Income by 13% YoY to ₹7,038 million, with operating margin of 82%;
- We announced distributions of ₹5,175 million or ₹5.46 per unit, representing a 100% payout ratio;
- We successfully refinanced ₹7.5 billion debt at 96 bps positive spread and locked-in 66% of our total debt at fixed costs; and
- We continued to maintain our strong balance sheet with low leverage of 26% and proforma debt headroom of ₹112 billion.

Let me take you through the details.

First, an update on our Q2 FY2023 income performance

- **Revenue from Operations** grew by 17% YoY to ₹8,571 million, mainly driven by new lease-up, contractual rent escalations, delivery of our 1.1 msf JP Morgan campus at ETV and ramp-up of business in our recently launched as well as existing hotel portfolio. This was partially offset by the impact of exits in our office portfolio over the last year.
- **Net Operating Income ('NOI')** and **EBITDA** grew by 13% YoY, primarily driven by an increase in Revenue from Operations, partially offset by the increased hotel operating expenses corresponding to the increase in hotel revenue.

  Our NOI and EBITDA margins stood at 82% and 80% respectively and continue to be best-in-class, demonstrating the scale and efficiency of our business.
- **Net Distributable Cash Flows ('NDCF')** stood at ₹5,182 million, down 3% YoY but up 2% QoQ. The YoY increase in our NOI and EBITDA contributed positively to our NDCF, which was mainly offset by incremental interest costs on the ₹46 billion coupon-bearing debt raised in November 2021 to refinance our earlier zero-coupon bond.

  Further, yesterday, the Board of Directors declared Q2 distributions of ₹5,175 million or ₹5.46 per unit **('DPU')**, representing a 100% payout ratio. Taken together with our earlier distributions, we have now cumulatively distributed over ₹68 billion in the 14 quarters since our listing.

Moving to our balance sheet and other financial updates

We remain focused on actively managing our debt book and given the ongoing interest rate hikes, we continued our strategy to lock-in fixed rates. During Q2, we successfully refinanced ₹7.5 billion bank debt with a 96 bps lower cost debt, resulting in annualized proforma savings of ₹70 million. This refinance comprised a new ₹5 billion fixed rate green bond at 7.65% for a 3-year tenure and a ₹2.5 billion floating rate term loan at 7.98%. We were able to refinance at attractive terms due to our robust balance sheet and our AAA/Stable rating.

As a result of the above and earlier refinancing, 66% of our total ₹136 billion debt now carries a fixed rate with an average maturity of 2.3 years and an additional 24% carries a fixed rate for FY2023. Also, less than 2% of our debt matures in the next twelve months. Given 90% of our debt is locked at fixed rates for FY2023, we are substantially insulated from the impact of any further rise in interest rates.

On the regulatory side, insurance regulator IRDA recently created 3% dedicated limits for domestic insurers to invest in debt and equity of REITs. Further, market regulator SEBI has allowed REITs to raise short-term debt by issuing listed commercial papers. We welcome both these developments and expect these to further expand the capital pool for REIT debt and to reduce our cost of funding. With these positive regulatory developments as well as our 26% low leverage at 7.1% impressive cost and our ₹112 billion proforma debt headroom, we are well-positioned to finance growth opportunities.

Before I move to our FY2023 guidance, let me provide an update on our half-yearly portfolio valuation as of September 2022. As per independent valuer's assessment, our Gross Asset Value grew by 7% YoY

to ₹508 billion. This was mainly driven by our recent deliveries and ongoing development capex, improved hotel performance, increase in market rents for few properties across Bangalore and Mumbai as well as the add-on acquisition by our joint venture entity. Consequently, our Net Asset Value as of September 2022 increased by 3% YoY to ₹400.71 per unit.

Lastly, an update on our FY2023 guidance

During our Q4 earnings call in April 2022, we had provided our full year FY2023 guidance comprising a mid-point NOI of ₹27,030 million and a mid-point DPU of ₹21.70 per unit, both within a range of +/-5%. At mid-point, this guidance implies a 9% YoY increase in NOI and an in-line DPU compared to previous fiscal. On a like-to-like basis, post factoring the impact of the ZCB refinancing, this DPU guidance is also 9% higher YoY, reflecting the efficient flowthrough of our NOI to distributions.

Based on our YTD performance, I am pleased to reconfirm this guidance. While there has been a resurgence in our leasing and hotel business performance, both of which are tracking at or ahead of our estimates, we expect our debt cost to be higher than our initial assumptions given the rapid rise in interest rates. Looking beyond FY2023, given our growth levers through mark-to-market rent growth, new lease-up and deliveries, we are well-positioned to accelerate our NOI and DPU growth, to the benefit of our Unitholders.

Over to Vikaash for his concluding remarks.

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Vikaash Khdloya
Chief Executive Officer (CEO)

Thank you, Abhishek.

So, another quarter of solid earnings growth. Our business continues to be in excellent shape, benefitting from strong fundamentals for India office, growing preference for high-quality properties and the unique offering and positioning of our best-in-class portfolio.

On the business front, we are well-positioned and have signed 3.4 msf leases in H1, already achieving around 70% of our overall annual leasing guidance. We have accelerated growth by actively developing over 7.1 msf projects, over 80% of which will come up in Bangalore, India's best performing office market. Overall, we remain on-track with our FY2023 guidance which is heartening amidst the uncertainty and earnings slowdown fears globally.

On the capital front, with continuing support from regulators, there is encouraging news on widening of the debt and equity capital pool accessible to Indian REITs. We continue to see the REIT product evolve and we welcome the increased participation from retail investors, insurers, domestic mutual funds as well as global sovereign wealth funds.

Looking forward, we remain committed to our business strategy – of delivering total returns through regular and predictable quarterly distributions, supplemented by growing our NOI and distributions through growth initiatives, both organic and inorganic. And we have an excellent team committed to deliver this growth strategy, by serving our over 220 occupiers and 65k Unitholders.

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

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QUESTION & ANSWERS SESSION

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Tayal from Bank of America Securities.

Kunal Tayal: Thanks for taking my question. On the leasing projections for the year, you have pretty much achieved your pre-leasing ambitions, you have done quite a lot on the new leasing part of it as well. So is it that the business intensity in H2 could be some bit different versus the first half of the year or is it more likely that you could achieve more than what you set up for at the start of year?

The second question was on the potential acquisitions that you have identified. Both of them have a fair amount of future development potential. So is that by design because it might be easier to make them NAV accretive that way or is there a different set of criteria that you look at to assess what is already ready versus the future development. Also, very curious about the remark about some of your leasing being 3%-4% above the market rents, so what exactly drives that?

Vikaash Khdloya: Thanks for your questions. So, I will take the first and the third and I will request my colleague Ritwik to take the second one.

On the leasing guidance, we are pleased that we have been able to achieve around 70% of our annual guidance, against the 5 million square feet total leasing guidance which includes new leasing, pre-commitments and end-of-tenure renewals. Last year, comparatively, we did 2.2 million square feet and even pre-pandemic, the numbers were lower than the 5 million square feet target that we have set for ourselves. So, a pretty good target to set in the first place.

We are seeing good momentum on pre-commitments, especially by banks. This shows that occupiers today are looking beyond the immediate and are planning for the medium-term requirements, especially given markets like Bangalore have seen complete dislocation on demand and supply, that is, available supply in the right micro-markets. Even our new leasing is around 60% of the target we have set for ourselves. We are pleased with how we have performed so far, and we are hoping to deliver beyond the guidance that we have laid out, but we will have to wait and see, simply because the Q3 ending-December activity usually slows down a bit due to the holiday season. Having said that, we continue to see momentum on the ground and our dual strategy of targeting large banks and captive centers for pre-commitments on one hand and on the other hand targeting smaller high-growth occupiers is paying rich dividends because these occupiers to whom we leased out over the last two years are actually now in conversations to take up more space. So we are in a good place and a majority of our leasing has been in Bangalore, again demonstrating why the market is so good in Bangalore.

The other thing I wanted to highlight Kunal, is of our c.4 million square feet vacancy, over 3 million square feet is in SEZ, as we all are aware of the conversations on DESH bill. On a pro forma basis, our occupancy will move up to around 88%-89% on a same store basis and excluding the SEZ space, it will move to about 97%-98% because obviously the demand for SEZ space has moved to non-SEZ as we are waiting for the DESH Bill. So we remain very positive and will see how the next two quarters pan-out but the conversations on the ground continue.

Coming to your question on the leasing rents and market premiums. This is a query that we have been receiving generally from across the market participants and hence we have provided this data point. We always maintain that we have achieved premium to market rents. Now in this context, the market rents are rents which CBRE

has assessed based on the positioning of our property and have already factored a premium compared to what is available in the market. But we have been able to achieve a premium to even those market rents. So we have achieved not only the substantial mark-to-markets but have gone beyond the market rents which goes in the making of the MTMs. We have laid out a number of 4% at a portfolio-level as well as for Manyata, over the last two years, we leased 600k odd square feet of new leasing at a 4% premium and we are pleased with that outcome. Again, it shows that today the occupier is not thinking about rents as much as they are thinking about the overall business ecosystem and what they can offer to their employees in order to hire and retain them. So, the positioning of the product is really important, and it is not about rent in most markets today.

Ritwik B: On the two acquisitions and your question around the amount of development that is happening in that portfolio of around 5 million square feet. When we look at these big business parks, the campus-style facilities, there is a fair amount of development in there. When you talk about it being by design, in our view, the way we look at this development is exactly what we spoke about in our earnings today where we want to control the economics, the land is effectively fully paid for, and these are markets where there is clearly rental growth, there is demand. Effectively what we have been able to do over the last two-three years since our listing is to bring that development online, to the tune of a few million square feet a year, and make sure that it tracks the demand in the market. That is how we think about de-risking that development. We do look at it from a NAV accretive viewpoint immediately but there is a more holistic view also. Once (the construction is) completed, we are in these growth and high-demand markets where the development will eventually pay-off at the right economics and that is why we think about buying the whole c.7 million square feet. Overall that will effectively give us the fire power to have a 50 million square feet portfolio. So that is how we think about the development portion and would proceed accordingly.

Kunal Tayal: Thanks Ritwik. Going back to the comment on the rental premium, it sounded like we should see that 4% number more like an Embassy premium and not as much a lead indicator that the rental rate overall in the marketplace might be starting to look up?

Vikaash Khdloya: Kunal, that is a very interesting question. Let me give you my view on that. Generally, rents have started ticking upwards in most markets, 1%-2% in non-Bangalore markets but Bangalore has already seen a healthy growth in rentals which is already factored in the market rents which CBRE estimates. When we go out there as Embassy REIT, we want to ensure that we position our product as premium and not just because we want to get better rents, of course we would like to, but also we want to attract those quality of occupiers who are not so much focused on rents, but who really like the overall business ecosystem. So we want to cater to the kind of occupiers who actually fit into our existing occupier base of premium high-quality ecosystem because that is what we are offering and that is the reason why the portfolio has been so resilient with bottomed occupancy of 87% despite the pandemic and that is the business model that we really like. Ritwik spoke earlier about the pipeline acquisitions, while we are still evaluating those, quality is something we have really focused on because this is a long-term business, and we want to ensure the properties continue to dominate in the market long-term and for that we need to attract global high-quality occupiers because they are the ones who will pay the higher-rents and will continue to grow.

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

Puneet Gulati: Thank you so much and congratulations on the good performance. Looking at the next few quarters, how are you seeing the leasing momentum for M3 Block A and the other two which are likely to be ready in the next quarter – Ganges and Hudson?

Vikaash Khdloya: On M3, you may recollect that we have Block A and Block B. Block B is now effectively fully preleased and committed by ANZ, including the growth options. Block A, the 1 million square feet, will be delivered by December this year. We are right now in intermediate discussions for around 400-450k square feet with one global occupier and again at those premium rents that I just spoke about. We are hoping to see if we can conclude that by early next year 2023 and then we will effectively take hand over of that given it is on a forward purchase construct. Manyata is seeing improved and increased demand, especially post the launch of the hotels, we are seeing suddenly a lot of traction building up. We have expedited the L4 block, the 700k square feet which is right now at excavation stage, which Ritwik mentioned, for the same reason as occupiers are currently asking for build-to-suit design options and we see this strong momentum continue as a lot of occupiers seek to both consolidate and move out of existing Grade A- or B+ properties.

On ETV, if you may recollect, again this is at early stages of construction, the 2 million square feet, of which 500k square feet was already pre-committed to JP Morgan. We are in intermediate stages of discussions with another bank for about 200k square feet and there are early stage discussions for another 1 million square feet with other tech occupiers. On ETV, our strategy is not to pre-commit everything today, we want to be balanced to de-risk the project itself and at the same time we want to achieve those premium rents and given the actual delivery is 2.5-3 years out, we would take a more calibrated view in leasing it out. We could theoretically lease this much faster given the strong demand and very little available supply. Our strategy there is that by the time we deliver, we do 50%-70% pre-commitment and push the rents higher for the balance and lease that out within six months post-delivery.

On the Embassy TechZone property, which is in Pune, we currently have enquiries of 400k square feet. This gets delivered end of this month or early November when we receive the OC. As I mentioned earlier, the traction has been slow in Pune, and we think the ramp-up on the traction in demand will also be slow and steady. It is unlike the Bangalore market where we see a lot of demand. So we have to be patient here but just to give you a flavor, we recently signed a 60k square feet lease with a global conglomerate of an American infotainment company which has renowned global audio brands. So this is for 60k square feet again at the market rents that we have mentioned. We are in discussions currently with two occupiers in mid to advanced stages – one is a California based integrated managed healthcare provider and the second one is the world's leading insurance and financial services company, both put together this is about 300-350k square feet. I want to again emphasize that at Pune, it is going to be slow on leasing, but we see encouraging back-to-office trends from the IT occupiers. We have heard numerous announcements and we see the percentage inch upwards for Pune park attendance - compared to last quarter when it was 15%, this quarter, the Pune park physical attendance was 35%, so pretty encouraging. We think once it approaches 50%-60%, that might be the threshold at which we will see good demand traction. Hinjewadi micro-market remains one of the most competitive rent markets in India and offers the best cost versus utility trade-offs. So we think reasonably good about it. Bangalore obviously is at the forefront, but Pune hopefully will pick-up in the next couple of quarters.

Puneet Gulati: Is it fair to assume your Bangalore occupancies are also similar at 35% or it is only for Pune?

Vikaash Khdloya: Bangalore occupancies are at around 35%. Pune, Noida have made the largest jump – last quarter, both were at around 15%. Noida is now at 41% roughly for our properties and Pune at 35%. Bangalore has been stable at around 35% although ETV is much higher, and Mumbai obviously leads at 60%+.

Puneet Gulati: While I understand the India story is absolutely great and offshoring will continue, but

are you picking up any signs of worry that physical occupancies will come little later and there is a pending recession in the global market, so some of the leasing decisions for next two quarters may get delayed. Is there any indication to that extent?

Vikaash Khdloya: If you have seen our existing Q2 deals, we have leased across banking and financial services, we have leased to healthcare firms across the value chain whether it is a major pharmaceutical company or a health tech R&D center, and we have done leases for other niche sectors like renewables and electronics and tech. The way we are looking at Q3 and Q4 is two folds. One the large banks and captive centers continue with the RFP process, although there is increased caution, and we believe the larger RFPs of 800k to 1 million square feet plus will take more time for closure and it is very consistent with what we have been hearing from the tech companies or how they are seeing the deals pipeline. At the same time, it is very interesting to note that the high growth, smaller quantum spaces, that we spoke about, is finding a lot of traction. We are seeing a lot of companies who are looking to take up 40k-50k-60k square feet. We did a lot of such deals in Q1 and Q2, about 20 plus. Such smaller size deals, which is about three-four times of what we would have ordinarily done pre-pandemic, are the ones where we are seeing good traction. So the leasing pipeline of 700k square feet that we indicated shows those intermediate to advance discussions that we are having for Q3, so the momentum is continuing. I am happy to give you flavor on what kind of occupiers are looking for space – it is a range of occupiers from new GCCs of large companies globally who are setting up their first-time centers or who are already existing in India with their global captive premises but are expanding into R&D centers. There are global consulting firms, private equity firms who are doing really well and there are many pharmaceutical companies which are now actually showing up with their global captives here. So we are pretty positive about it and of course the 1 million square feet kind of deals will pick up.

Ritwik B: Can I just add to that. If you also look at some of the US bank results that have come out at this point in time, it has obviously been a big mixed bag simply because profits are down or because of capital market volatility, deal-making is down but the underlying core businesses that they run driven by different deposits, technology, investments, that continues to fire. The pre-commitments that we have seen across our portfolio, are from these banking majors and financial services firms looking to invest in the future. There is going to be an inevitable economic slowdown and that is going to have a ripple effect on our markets, this is going to have a ripple effect on funding costs, the broader space requirement conversations might move at the margin a little bit, but the long-term secular trend for our space will continue to be very robust and that is why we will continue to invest a lot in the same.

Puneet Gulati: Just two more questions. Are we done with the entire IBM exit or there is still more to go?

Vikaash Khdloya: While we would not want to comment specifically on one client, but if you see our expiry pipeline and exits for this year, the balance exits are roughly around 100-200k square feet and the next year total expiries, not necessarily exits, are 900k square feet as of now. That is for the full portfolio, so that will probably answer your question. This quarter, of the 850-900k square feet, there was one large, staggered exit which already got factored into the occupancy and also into our numbers – around 400k square feet in Manyata of a legacy lease.

Puneet Gulati: Last one is on the hotel side. I was under the impression that the market is doing quite well but the Four Seasons which is part of the portfolio still seems to be running quite low. Any comments on what needs to be done there?

Vikaash Khdloya: Yes, your observation is absolutely correct. So while our hotel business is really firing, with Manyata 619 key hotels achieving breakeven levels in the first month of launch,

that is phenomenal, but at the same time, Four Seasons which is a very small component of an already small hotel component of our portfolio, has been underperforming. We have recently changed the management teams and operating teams at the ground, and we are looking to revisit our positioning in the market. We have now moved our room rates higher, and we will see an impact of that in the occupancy in the short-term, but we are trying to reposition the hotel. The hotel actually physically never got a good launch, because at that time of launch when it was ready, we hit the COVID period. So you are right, it is a small part of our portfolio. Of course we would want to do much better than what we are doing but not something that really concerns us as it is a very, very small component of the NOI and distributions.

Moderator: Thank you. The next participant is Rahul Marathe from ICICI Prudential. Please go ahead.

Rahul Marathe: Congrats on your strong leasing traction. We could see that EBITDA growth and NOI growth was pretty strong, but because of the adverse movement on the interest expense, that did not flow through to the DPU. So when will we see that interest expense stabilize and it will actually start flowing through the DPU. Secondly, we can see the strong development pipeline of 7 million square feet. How do we plan to fund this capex because if we want to maintain that AAA rating, we will have to cap our leverage to 35%, so how do we plan to fund this?

Abhishek S: I will take the first question. The EBITDA and NOI are growing, however as you rightly pointed out, the interest expense has also risen. The reason for this is basically the ZCB refinance. It will stabilize over the next quarters. The NOI and EBITDA will continue to grow because of the leasing that we have done during the last two quarters. Because of certain projects that were delivered recently, the interest which was getting capitalized is also now moving to P&L. Having said that, this will stabilize over the next couple of quarters.

Vikaash Khdloya: On your capex question. As Ritwik mentioned, yields are pretty accretive on the capex and given we are still able to access debt financing for capex at around 8.5%, we are comfortable financing it fully through debt. Just to highlight the entire ₹2000 crores that Ritwik mentioned is the pending construction cost, that is staggered over the next three to four years and not just in one year. So hopefully the NOI also starts growing as some of the projects like M3 and ETZ start coming up in the next two or three quarters. So we think that will balance the needs of maintaining our debt ratios and we would be able to continue to borrow and fund the capex program fully through debt.

Rahul Marathe: So you are saying that the debt would be raised in three-four year maturity bonds?

Vikaash Khdloya: No that is not what I said, sorry, just to clarify what I am saying is this ₹2000 crores, which is just office capex figure and obviously the infrastructure upgrades and hotel all of that will also be fully funded through debt, we will keep accessing capex through construction financing at SPV level so as to avoid the negative drag which a REIT level bond will have because that we will have to borrow at one go and construction would require money in tranches. What I am saying is that we will also need to borrow the money in phases because all of the construction spends are not happening on day one or year one. So as we continue the construction, we will keep borrowing the ₹2000 crores. At the same time, the NOI will start growing as we deliver the earlier of these buildings which are on schedule for later this year, so hopefully that will match, and we will be able to maintain our EBITDA and our other ratios for debt and maintain the AAA rating, and also access those interest costs.

Ritwik B: Also, if you just look at our supplemental data book which we put out, on page #19, we show the breakout of what we have at the REIT level and at the SPV levels, so

that will give you an idea of how we think about construction financing, the cost of that and then the various maturities and that is effectively what we will continue do at the SPV level and then as and when there is a requirement for that to fund at the REIT level, we will go to the bond market.

Moderator: Thank you. The next question is from the line of Pawan from IIFL Capital. Please go ahead.

Pawan: Thank you for the opportunity. This question is again on Pune. By when do you expect the occupancy levels to reach something like your own portfolio, Bangalore particularly. Second question is about Mumbai. Do you see occupancies going higher, what is the timeline that you are looking at?

Vikaash Khdloya: Thank you for that. If I got your question right, the first was in respect of the occupancy and when do we see it going up. So let me breakdown the current occupancy on what we stand today, what do we see pro forma basis, and what do we see it on an SEZ vacant space basis, and I will just give you our view on how it will move. So today as of Q2, our occupancy is at around 87% on a same-store basis and factoring our guidance for the remaining half of the year, we expect to end up at 89% same-store basis because we add Pune property of 900k square feet over the next quarter or so. However, if you exclude the 3 million square feet SEZ vacant area, it has been hard for the industry to market SEZ space and not just limited to us but rather to all office developers, effectively our occupancy as of the end of this year on a same-store basis and excluding the 3 million square feet SEZ vacant area that we primarily we have in Manyata and in Quadron in Pune, would be around 96%. So in some sense the occupancies by the end of this year will already be at pre-pandemic levels and of course the SEZ is an issue we all need to solve, and we are in discussions with the regulators on that.

Now just to take a step back, honestly, we are more focused on the NOI growth than the occupancy and that is the reason why we do not want to lock-in lower rentals just for the optics of occupancy. We have been very selective of our occupiers, and we do not want to dilute our rent roster. Let me give you an example of Manyata wherein we have had about 2.1 million square feet of exits at about ₹58 over the last two years. We let a large occupier, referenced earlier in this call, to leave partial space simply because the rent was really sub-market and we wanted to charge market rents given the quality of the ecosystem. In the same time period, we have leased about 700k square feet in Manyata, this is the last two year timeframe, and this is at average rents of ₹103. This is at a 4% premium on the market rents as per CBRE estimate. Effectively, there is a 110%-112% mark to market on Manyata. Of course there is more vacancy that we need to lease-up, we have only leased one-third of what got vacated over the last two years, but I just want to mention to you the way we think about it. For us it is about NOI growth and hence translating into DPU growth moving forward and not just occupancy number. That is also the reason why occupancy-wise we still remain at 87% on a pro forma basis end of the year based on our guidance but our NOI guidance is 9% up for the full year. So we would just encourage you to start thinking in terms of NOI growth rather than just occupancy.

Moderator: Thank you. The next question is from the line of Vishal Parekh from Kotak Investment Advisors. Please go ahead.

Vishal Parekh: Congratulations for the good results. Could you throw some more light on the refinancing spread which has been achieved. For example, in the last year's supplemental data book, the green loan of Embassy TechVillage was at 6.84%, now that debt seems to be spread across multiple other loans. So just wanted to understand what changes have happened. So that was my first question on the debt space and the second question I had was on the GolfLinks distribution. I understand

that about ₹64 Crores has been distributed from GolfLinks apart from the dividends. So could you give a break-up of that ₹64 Crores?

Abhishek S: On the first question, we had a loan of ₹750 crores in VTPL as you rightly pointed out and the interest rates are hardening. If we had not done anything, the interest rates as on today would have gone beyond 8.7%. So, we did an early refinance through a listed NCD wherein we locked-in a rate of 7.65% for around ₹500 crores which was fixed for three years. So due to this, we achieved a spread of more than 110 basis points, and we locked in the rate for three years. And then the balance of the loan beyond ₹500 crores was refinanced through term loans of existing sanctions where we achieved a spread of around 30-40 basis points lower than what it would have been for the loan. Does that answer the question?

Vishal Parekh: Yes, understood thank you. On the second part GolfLinks if you can just clarify. About ₹64 crores of distributions have been made from GolfLinks which is apart from the dividends coming from GolfLinks. In the last quarter, you had given a guidance on the breakup of the distribution between interest and loan repayments which you have extended through the GolfLinks entity, so if you can give the breakup of that ₹64 crores?

Abhishek S: Yes, if you remember, there are three components. One was dividend of about ₹17.5 crores for this quarter. The second component was interest which is at a fixed rate. This was somewhere around ₹19 crores for this quarter and the third is the amount of debt which is basically dependent on the total cash availability with the joint venture entity. For this quarter, they have repaid ₹45 crores.

Vishal Parekh: So for D1 and D2, the capex estimate is about ₹600 crores. Just wanted to clarify whether it includes IDC or it is pure hard construction cost?

Vikaash Khdloya: So the capex amount that we laid out as the budget excludes IDC but the yield on cost number that we have put out of 22% includes not just the IDC but also the rental loss for the three and a half years or four years till the building will be completed. So the yield on cost factors the IDC and the rental loss but the capex outlay is just pure cash outlay that we forecast on this project, on a full cost basis.

Vishal Parekh: Understood. Thank you so much for the clarification.

Moderator: Thank you. The next question is from the line of Saurav Agarwal from Avendus Capital. Please go ahead.

Saurav Agarwal: Thank you for taking my question. My question is on the financial part. What is the major reason for the drop in your NOI margin and EBITDA margin?

Abhishek S : If you see the revenues, they are increasing largely because of the hotel revenues as there has been a super ramp up in the hotel business. The NOI margins of our commercial business is above 90%, but the NOI margins for hotels are somewhere around 25% to 35%, because of which even though the revenue has increased and also the NOI, the margin of NOI has actually decreased by 2.5% to 3% points and the same impact has flown down the EBITDA.

Saurav Agarwal: This is because of the nature of hotels revenue, you are not able to capture the same NOI as the commercial business, right?

Abhishek S: Yes, because the commercial business has more than 90% NOI margin and EBITDA margin, however the hotel business has 25% to 35% of NOI and EBITDA margin on revenue. So as and when the hotel revenue is increasing, the total NOI and EBITDA margin is coming down.

Ritwik B: Can I just add to that. At the end of the day, we are obviously in a situation where it is probably a good thing, because the hotel business is beginning to fire. That is going

to cost more money to ramp up and that is putting pressure on NOI and EBITDA. What you are seeing is a slight lag in terms of the commercial business at this point in time. We will find that overtime, in a good market, as demand comes back and as the projects continue to lease up, that is going to offset any expense pressure that comes from the hotel business.

Vikaash Khdloya: Just to add to what Ritwik said and to demonstrate in numbers. Our NOI margin for the office business last year was 87% and the NOI margin for the office business for this quarter also stood at 87%. Last year, the hotel margin was negligible to zero percent because the hotels were still recovering and this quarter the hotel margins are at around 37%, so this is purely because of the segment mix as the hotels are ramping up and we are launching new hotels. The hotels obviously have a higher cost proportion, and the EBITDA margins work differently in a hotel business vs in an office business. So it is safe to say that ex-hotels, the EBTIDA and NOI margins are consistent or better than what it was in the previous year. If you would want to see more details on that, may I request you to refer to page #13 of the supplemental data book and we are happy to answer your questions even after that.

Moderator: Thank you. The next question is from the line of Mohit Agarwal from India Infoline. Please go ahead.

Mohit Agarwal: Thanks and congratulations on the five-star rating from GRESB. My question is on your initial thoughts on the Chennai market that you are looking to enter. So when we look at industry data, the vacancy levels there are increasing since the pandemic has come. So any thoughts on how has been the leasing demand and what have been your initial discussions with tenants and how does it fit into the overall asset portfolio and the reason I am asking is that there is significant leasing to be done in there should we decide to acquire this asset, so what are your initial thoughts on that?

Ritwik B: Let me start and Vikaash can obviously back me up on the leasing traction that we are seeing. The short answer is that this is a market that we have actually wanted to enter in for a long time. This was obviously part of the initial ROFO portfolio. I do not know if you have exactly seen where this asset is, but it is literally ten minutes away from the airport post GST and it is on the Thoraipakkam-Pallavaram highway that connects up to OMR. So it is in a spot with a great residential catchment and an area where you have some global real estate players and other developers and major capital providers and real estate capital allocators committed to the area. I think we are well ahead of the game there, and the people who leased there are your banking majors and major tech companies. With the feedback that we have gotten, there has been a lot of leasing traction on that road. We have spoken to a number of IPCs who have been saying that there are banking majors, financial conglomerates and data providers who are continuing to look for more space in that area and the way we strategically think about growing is that this is a great addition to our portfolio and at the end of the day what we want to buy is an asset which looks and feels like an Embassy TechVillage, like a Manyata or like an Express Towers. We are still working on it, and we have not committed to anything beyond offer letters, but we think that this asset gives a perfect segue into a market like Chennai. At the end of the day, the leasing market in Chennai tends to go hot and cold, depending on the location that you are in. With what we are seeing in this market, we are pretty happy with the leasing trajectory.

Vikaash Khdloya: The asset is 5 million square feet – 1.4 completed and almost leased out, 1.6 million square feet is nearing completion and what we understand from the potential sellers here is that there is 400k square feet of intermediate to advanced discussions with one of the US global banking majors. This property already has three fortune 500 companies. On the balance portion of under construction and future development, we will take a rationale view on how we tie in the supply and delivery, as we have done

for the rest of our REIT portfolio. So we are not overtly worried about the huge potential development, we think it will help us from a growth perspective, but we just have to ensure we ramp-up construction in a more staggered manner.

Mohit Agarwal: My second question is you have spoken about physical occupancy improving especially in ETV and Mumbai. How do you see that going forward? Do you see that improving slowly and steadily or do you see that there will be an inflection point beyond which the number could kind of go up sharply to 50%-60% across assets, what are you picking up from your tenants?

Vikaash Khdloya: The steady ramp up has been encouraging, we would have loved it to be even higher. Having said that, the distinct trends on what we are seeing whether it is Mumbai or ETV, the higher up the value chain the occupiers are in a park, we are seeing better ramp-up and with banks now pretty much mandating a certain number of days or week as compulsory and you may have seen the statements made by the tech majors over the last two-three weeks on ramp up back to office, we believe that the ramp up should pick-up materially. Obviously every company is different, every park has its own nuances, but we do think there will be an inflection point somewhere around the end of the year or early next year. As the physical occupancy at the parks reaches 50% or more, there would also be a trigger for occupiers to really expedite on their space requirements. So let us see how it pans out but that is what our understanding is based on the ground-level feedback.

Mohit Agarwal: End of the year would mean calendar or fiscal year?

Vikaash Khdloya: I would take it more as Q4. It is still ramping up, but I think by end of March, we would hope to reach around 60%.

Moderator: Thank you. Ladies and gentlemen, in the interest of time we will take the next question as the last question. The next question is from the line of Piyush Mittal from Kotak Investment Advisors. Please go ahead.

Piyush Mittal: I think my questions have been covered in the earlier questions, so I am good.

Moderator: Thank you very much. I now hand the conference over to Mr. Abhishek Agarwal for closing comments.

Abhishek A: Thank you so much for joining us on today's call and for your great questions. Most of the data points covered today can be found on our website and in the published materials, and we are always happy to engage further if any additional clarifications are required. Good afternoon and here wishing everyone a wonderful festival week ahead. Thanks.

Moderator: Thank you very much. On behalf of Embassy REIT that concludes this conference. Thank you for joining us, you may now disconnect your lines.