

● **RATING: BUY**

Embassy REIT: Stable performance

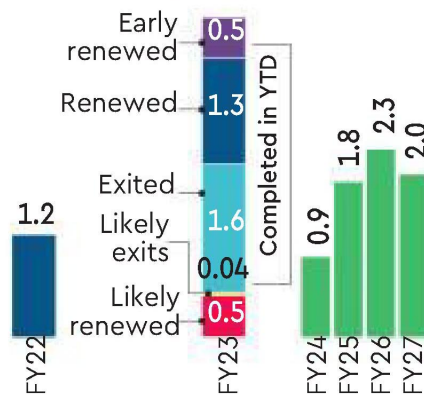
Overall same-store portfolio occupancy remains flat at q/q 88%

THE EMBASSY OFFICE Parks REIT (Embassy REIT) delivered a resilient Q3FY23 performance with same-store office portfolio occupancy levels remaining flattish q-o-q at 88% and net operating income (NOI) remaining flat q-o-q at ₹700 crore. The REIT manager had given guidance for 5.0msf of leasing in FY23 vs. 2.2msf in FY22 and has achieved 9MFY23 leasing of 4.4msf. While headwinds owing to delay in introduction of DESH Bill (vacant SEZ spaces) and slowdown in large deals owing to global macro conditions are near-term demand dampeners, the REIT manager remains confident of delivering double digit NOI growth in FY24E and beyond. The NOI growth is expected to be driven by lease-up of vacant space (1.3msf of conversion from SEZ to non-SEZ), completions of 6.6msf of new area over FY23-27E and markup of expiring leases. We retain our BUY rating with a revised Mar'23 NAV based target price of ₹425/unit accounting

Mark-to-market opportunity for REIT portfolio

27% of leases expire between FY23-27

Area expiring (msf)



Source: Company, I-Sec research

for asset and balance sheet adjustments, higher WACC and capex. While we retain our FY23 distribution/unit (DPU) estimate of ₹21.6/unit, we reduce our FY24 and FY25 DPU estimates by 5% and 7% respectively to ₹23.0/unit and ₹24.5/unit, respectively. Key risks are slow recovery in leasing and higher vacancy levels.

The REIT saw overall same-store portfolio occupancy remaining flat-

tish q-o-q at 88% with Q3FY23 NOI of ₹700 crore. For Q3FY23, the REIT manager declared an NDCF (net distributable cash flow) of ₹500 crore and with 9MFY23 DPU of ₹16.1/unit, the REIT manager is on track to achieve its FY23 DPU guidance of ₹20.6-22.8/unit vs. Isec estimate of ₹21.6/unit.

The REIT portfolio has scheduled expiries of 3.4msf in FY23, of which the REIT manager has renewed 1.8msf in 9MFY23 and expects to renew another 0.5msf in Q4FY23 with no further exits). Heading into FY24E, the REIT portfolio has scheduled expiries of 0.9msf of which the REIT manager expects to renew most of the non-SEZ space of 0.7msf with balance SEZ space expiries of 0.2msf expected to see some expiry. While delay in introduction of the DESH Bill has led to continued vacancies in SEZ space and global macro conditions expected to impact large space leasing decisions up to Jun'23, as per the REIT manager, small and mid-sized enquiries for non-SEZ space continues to be robust which will drive occupancies going forward.

The REIT currently has 6.6msf of development pipeline mainly across Manyata and Tech Village Bengaluru assets expected to be completed over FY23-27E at a total cost of ₹30bn (₹2,100 crore pending capex as of Dec'22) and may deliver incremental NOI of ₹800 crore. These new assets along with MTM (market-to-market) on existing leases, may drive long term growth.

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