Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

October 05, 2021 | Mumbai

Embassy Office Parks Reit

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.4500 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Assigned)**
Non Convertible Debentures Aggregating Rs.8050 Crore	**CRISIL AAA/Stable (Reaffirmed)**

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.4,500 crore non-convertible debentures (NCDs) of Embassy Office Parks REIT (Embassy REIT), and has reaffirmed the 'CRISIL AAA/Stable' rating on existing instruments/NCDs. The rating assigned to the NCDs is for refinancing one of the existing NCDs (Series – I) in November 2021.

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

Revenue grew by 9% in fiscal 2021 to Rs 2,561 crore from Rs 2,340 crore in fiscal 2020, driven by the acquisition of Embassy Tech Village (ETV). Same store revenue growth remained muted due to Covid-19 induced increase in vacancy level, however same store net operating income (NOI) grew by 2% in fiscal 2021. CRISIL Ratings expects Embassy REIT to observe double-digit growth from fiscal 2023 supported by the completion of under construction area, contractual rental growth, improvement in occupancy levels as well as improvement in hospitality business. The occupancy level of the Embassy REIT stands at 89% as on June 30, 2021, including ETV. However, same store occupancy has fallen to 87% in the first quarter of fiscal 2022 from 94% during the corresponding period of the previous fiscal. Nonetheless, the increase in vacancy is anticipated to be short term with gradual improvement expected post the current fiscal. Additionally, Covid-19 has also led to the adoption of a hybrid working model by many corporates. Any impact of this on the occupancy as well as micro market of the REIT will remain key monitorable.

Analytical Approach
CRISIL Ratings has combined the business and financial risk profiles of Embassy REIT with its underlying SPVs, and has applied the criteria for rating entities in homogeneous groups. This is because Embassy REIT has direct control over the SPVs and will support them during exigencies. Additionally, there is minimal structural subordination of cash flow, wherein the SPVs have to 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 Regulations, 2014, of Securities and Exchange Board of India (SEBI), the cap on borrowing by the real estate investment trust (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:

- **Strong debt protection metrics:** Consolidated gross debt rose to Rs 10,867 crore as on June 30, 2021, from Rs 5,876 crore as of June 30, 2020. The increase in debt level was mainly due to acquisition of ETV. Going forward the funds required for ongoing construction activities may further increase the consolidated gross debt. However, the debt protection metrics still remain strong with LTV and debt-to-EBITDA (earnings before interest, tax, depreciation and amortisation) ratios expected to remain comfortable at less than 40% and 5.5 times respectively. A low LTV ratio protects investors from the risk of decline in property prices and the consequent impact on refinancing.

- **Stable revenue of SPVs part of REIT:** More than 95% of the revenue comes from 12 established and high-quality commercial assets and one solar park, with stable operations and track record of at least five years of rental collection. The acquisition of ETV has further strengthened the stability of cash flow. Consolidated revenue was Rs 2,561 crore for fiscal 2021 as against Rs 2,340 crore for fiscal 2020, supported by timely rental escalations as well rent collections from tenants. Rental collections from office occupiers was robust despite the pandemic, reflected in over 99% collection witnessed in fiscal 2021 and the first quarter of fiscal 2022. 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**: 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 42.4 million sq ft of available office area with a healthy mix of operational area of 32.3 million sq ft and under-construction assets. The commercial assets have robust occupancy, averaging 89% as on June 30, 2021, with a multinational occupier base, of which Fortune 500 companies account for 48%. The top 10 tenants contributed around 38% of rentals.

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. Emergence of competing facilities in the vicinity could also have the potential to cannibalise tenants or rental rates. However, office rental collection for fiscal 2021 and the first quarter of fiscal 2022 for Embassy REIT was robust over 99%.

- **Exposure to refinancing risks:** All NCDs issued by the REIT have bullet payments at the time of redemption. Sizeable debt for the existing NCDs increase the risk of refinancing. However, the risk is mitigated by the availability of call option in NCDs, healthy consolidated leverage and extensive experience of the management.

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

Liquidity: Superior

Liquidity is likely to remain supported by stable cash flows from the underlying assets. The debt level remains moderate for the REIT. The NCDs are non-amortising, exposing the debenture-holders to refinancing risk. However, the conditions around redemption provide the REIT with sufficient time to arrange for refinancing. Furthermore, consolidated debt at the REIT level is not expected to exceed LTV ratio of 40%, protecting investors from the risk of decline in property prices and the consequent impact on refinancing. As of June 30, 2021, REIT has a cash balance of Rs 175.2 crore to support its day-to day operations as well as has sanctioned undisbursed debt of Rs 1,354.9 crore for ongoing construction activities.

Outlook: Stable

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

Rating Sensitivity Factors

Downward Factors:

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

About the Trust

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

Indian Express Newspapers (Mumbai) Pvt Ltd (IENMPL) owns and operates a commercial property, Express Towers, in Nariman Point, Mumbai. The property has been operational for over four decades, and has a total leasable area of 4.7 lakh sq ft, of which 89.5% was occupied as on June 30, 2021.

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 49.7% was occupied as on June 30, 2021. It also owns and operates mixed-use development, consisting of office and retail space and a hotel in north Bengaluru. The property has a total leasable area of 2.5 lakh sq ft, of which majority is yet to be leased. The hotel, consisting of 230 rooms, is run under the Four Seasons brand.

Qubix Business Park Pvt Ltd (QBPPL) owns and operates a commercial IT park, Embassy Qubix, in Hinjewadi. The company has a track record of seven years in lease rental collection. Of the total leasable area of 14.5 lakh sq ft, 84.3% was leased as on June 30, 2021.

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 72.9% was occupied as on June 30, 2021.

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 80.6% was leased as on June 30, 2021.

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 98.5% of the entire leasable area of 13.6 lakh sq ft was leased as on June 30, 2021.

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 75.8% was leased as on June 30, 2021, 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 117.5 lakh sq ft, of which 93.7% was leased as on June 30, 2021, while around 17 lakh sq ft is under development and 14 lakh sq ft is proposed to be developed. The company is developing 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 12% as on June 30, 2021. The hotel was temporarily closed in accordance with state government guidelines following the lockdown and subsequently reopened by mid-June 2020.

Embassy Pune Techzone Pvt Ltd (EPTPL), on a standalone basis, owns an office park, Embassy Techzone, in Hinjewadi. Of the total area of 21.6 lakh sq ft, 88.4% was leased as on June 30, 2021, while 9 lakh sq ft is under development and 24 lakh sq ft is proposed to be developed.

Golflinks Software Park Pvt Ltd (GLSP) was incorporated in 2000 for developing a software technology park, Embassy GolfLinks, on IRR. The company has developed 27.4 lakh sq ft, of which 97.2% was leased as on June 30, 2021.

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 61 lakh sq ft of completed office premises, 31 lakh sq ft of under-construction office space (of which 36% has been pre-leased to JP Morgan) and a proposed hotel of 518 keys. Of the total operational area of 61 lakh sq ft, 97.8% was leased out as on June 30, 2021.

Embassy Office Ventures Pvt Ltd (EOVPL) is the holding company of VTPL

Key Financial Indicators (CRISIL Ratings-adjusted)

For fiscal	Unit	2021	2020^
Revenue	Rs.Crore	2,561	2,340
Profit After Tax (PAT)	Rs.Crore	699	779
PAT Margin	%	27.3	33.3
Adjusted gearing	Times	0.39	0.26
Interest coverage	Times	3.33	4.78

^Does not include VTPL, SIPL and EOVPL as they were acquired in December 2020

Any other information:
Embassy REIT ("Issuer") had proposed certain amendments in the terms and conditions of the NCDs with respect to voluntary redemption and changes in EBITDA definition to align all the NCDs. The amendments were approved by the investors, and the revised terms are mentioned below:

Series I
- Gross Total Debt / EBITDA of the REIT Group <=5.0x. Provided that Issuer shall not borrow any Permitted Indebtedness which shall result in the Gross Total Debt divided by EBITDA on a proforma basis exceeding 4.5x.
- Loan to Value (LTV) Ratio of the REIT Group <= 35%.

Series II
- Net Total Debt / EBITDA of the REIT Group <= 5.0x.
- LTV of the REIT Group <= 40%.
- LTV of Secured Assets <= 49%.
- EBITDA of Mortgage Properties of EPTPL and Portfolio Assets of IENPL on an aggregate basis >= Rs 225 crore

Series III
- Net Total Debt / EBITDA of the REIT Group<= 5.0x.
- LTV of the REIT Group <= 40%.
- LTV of Secured Assets <= 49%.
- EBITDA of Mortgage Properties of VTPL and Portfolio Assets of EEPL, on an aggregate basis >= Rs 400 crore

Series IV
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of the REIT Group <= 40%.
- LTV of the Mortgaged Properties of SIPL <= 49%.
- EBITDA of SIPL >= 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 >= Rs 86 crore

Series V (proposed)
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of the REIT Group <= 40%.
- LTV of Secured Assets <= 49%.
- Total indebtedness against Operational Assets/EBITDA generated by Operational Assets <=7.0x

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. 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 level	Rating assigned with outlook
INE041007019	Non-convertible debentures	03-May-2019	0%	03-Jun-2022	3,000	Complex	CRISIL AAA/Stable
INE041007027	Non-convertible debentures	22-Nov-2019	0%	03-Jun-2022	650	Complex	CRISIL AAA/Stable
INE041007035	Non-convertible debentures	09-Sep-2020	7.25%	09-Oct-2023	750	Complex	CRISIL AAA/Stable
INE041007043	Non-convertible debentures	27-Oct-2020	6.7%	09-Oct-2023	750	Complex	CRISIL AAA/Stable
INE041007050	Non-convertible debentures	15-Jan-2021	6.4%	15-Feb-2024	2,600	Complex	CRISIL AAA/Stable
INE041007068	Non-convertible debentures	07-Sep-2021	6.8%	07-Sep-2026	300	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	2,500	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	2,000	Complex	CRISIL AAA/Stable

**Not yet issued*

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
IENMPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
QBPPL	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
GLSP	Partial	Investment entity consolidated to the extent of 50%

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	12550.0	CRISIL AAA/Stable	24-08-21	CRISIL AAA/Stable	25-11-20	CRISIL AAA/Stable	09-05-19	CRISIL AAA/Stable	24-09-18	Provisional CRISIL AAA/Stable	--
			--	17-08-21	CRISIL AAA/Stable	21-09-20	CRISIL AAA/Stable	22-04-19	Provisional CRISIL AAA/Stable		--	--
			--	15-06-21	CRISIL AAA/Stable	26-08-20	CRISIL AAA/Stable,Provisional CRISIL AAA/Stable	06-03-19	Provisional CRISIL AAA/Stable		--	--
			--	19-01-21	CRISIL AAA/Stable	05-08-20	CRISIL AAA/Stable	18-01-19	Provisional CRISIL AAA/Stable		--	--
			--	11-01-21	CRISIL AAA/Stable,Provisional CRISIL AAA/Stable	16-05-20	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]
[Criteria for rating entities belonging to homogenous groups]

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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