

## Rating Rationale

March 17, 2022 | Mumbai

### Embassy Office Parks Reit

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

#### Rating Action

Rs.1000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
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)
Corporate Credit Rating	CCR 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 proposed non-convertible debentures (NCDs) of Rs 1,000 crore of Embassy Office Parks REIT (Embassy REIT) while reaffirming the rating on the Rs 7,500 crore of NCDs at 'CRISIL AAA/Stable' and corporate credit rating at 'CCR AAA/Stable'. The proposed NCDs are expected to be utilised towards – a) refinancing of external debt at underlying special purpose vehicles (SPVs)/investment entities, b) construction finance for ongoing projects and future development c) working capital, d) funding acquisitions and/or e) other general corporate purposes.

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.

#### 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 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:

**Strong debt protection metrics:** Consolidated gross debt rose to Rs 11,788 crore as on December 31, 2021, from Rs 10,228 crore as of December 31, 2020. The increase in debt level was mainly due to the capex requirements at SPV level. Going forward the funds required for ongoing construction activities may further increase the consolidated gross debt. However, the debt protection metrics will remain strong with LTV and debt-to-EBITDA (earnings before interest, tax, depreciation, and amortisation) ratios expected to be 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 2,213 crore for 9 months ended December 31, 2021 (9m 2022) as against Rs 1,621 crore for the corresponding period in fiscal 2021, supported by timely rental escalations as well rent collections from tenants. Rental collections from office occupiers were robust despite the pandemic, reflected in over 99% collection witnessed in 9m 2022. Furthermore, the REIT renewed/entered into new agreements to the tune of 16.86 lakh square feet (sq. ft) during the 9m 2022 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 426 lakh sq. ft of available office area with a healthy mix of operational area of 336 lakh sq. ft and under-construction assets. The commercial assets have robust occupancy, averaging 87% as on December 31, 2021, with a multinational occupier base, of which Fortune 500 companies account for 49%.

##### 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 (including top some tenants) contribute to 39.4% and 40% of gross occupied area, respectively, as on December 31, 2021, exposing the REIT to moderate concentration risk. Further, as on December 31, 2021, 28% of the leased area will be due for renewal between fiscals 2023 and 2026. 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. 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, insurance companies and foreign portfolio investors (recently allowed by the respective regulators), which mitigates refinancing risk to some extent.

#### **Liquidity: Superior**

Liquidity is 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 of the REIT 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 December 31, 2021, Embassy REIT had a cash balance of Rs 207 crore to support its day-to-day operations as well as undisbursed debt of Rs 898.2 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:**

- Depreciation in the value of the underlying assets or higher-than-expected incremental borrowings, resulting in LTV ratio of over 40%
- Occupancy level remaining 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 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 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 88.3% was occupied as on December 31, 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 50.1% was occupied as on December 31, 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 substantial is yet to be leased. 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. The company has a track record of seven years in lease rental collection. Of the total leasable area of 14.5 lakh sq. ft, 89.0% was leased as on December 31, 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 77.5% was occupied as on December 31, 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 84.0% was leased as on December 31, 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 83.5% of the entire leasable area of 15.0 lakh sq. ft was leased as on December 31, 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 December 31, 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 88.2% was leased as on December 31, 2021, while around 11 lakh sq. ft is under development and around 20 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 27% as on December 31, 2021.

Embassy Pune Techzone Pvt. Ltd (EPTPL), on a standalone basis, owns an office park, Embassy Techzone, in Hinjewadi. Of the total area of 22 lakh sq. ft, 86.0% was leased as on December 31, 2021, while 9 lakh sq. ft is under development and 24 lakh sq. ft is proposed to be developed.

Golfinks Software Park Pvt. Ltd (GLSP) was incorporated in 2000 for developing a software technology park, Embassy GolfLinks, on IRR. The company has developed 29 lakh sq. ft, of which 94.3% was leased as on December 31, 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 72 lakh sq. ft of completed office premises, 19 lakh sq. ft of under-construction office space and a proposed hotel of 518 keys. Of the total operational area of 72 lakh sq. ft, 99.0% was leased out as on December 31, 2021.

#### **Key Financial Indicators (CRISIL Ratings-adjusted)**

For fiscal	Unit	2021	2020 <sup>^</sup>
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

<sup>^</sup>Does not include VTPL, SIPL and EOVPPL as they were acquired in December 2020

#### **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 (tentative)**

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

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

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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 level	Rating assigned with outlook
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
INE041007076	Non-convertible debentures	18-Oct-21	6.25%	18-Oct-2024	2,000	Complex	CRISIL AAA/Stable
INE041007084	Non-convertible debentures	18-Oct-21	7.05%	18-Oct-2026	1,100	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	1,000	NA	CRISIL AAA/Stable

\*Proposed and yet to be placed

**Annexure - List of Entities Consolidated**

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
IENMPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
QBPPPL	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**

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CCR AAA/Stable	20-01-22	CCR AAA/Stable		--		--		--	--
Non Convertible Debentures	LT	8500.0	CRISIL AAA/Stable	20-01-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	25-11-20	CRISIL AAA/Stable	09-05-19	CRISIL AAA/Stable	Provisional CRISIL AAA/Stable

			--		--	05-10-21	CRISIL AAA/Stable	21-09-20	CRISIL AAA/Stable	22-04-19	Provisional CRISIL AAA/Stable	--
			--		--	24-08-21	CRISIL AAA/Stable	26-08-20	CRISIL AAA/Stable,Provisional CRISIL AAA/Stable	06-03-19	Provisional CRISIL AAA/Stable	--
			--		--	17-08-21	CRISIL AAA/Stable	05-08-20	CRISIL AAA/Stable	18-01-19	Provisional 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](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Pankaj Rawat</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:pankaj.rawat@crisil.com">pankaj.rawat@crisil.com</a></p> <p><b>Hiral Jani Vasani</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:hiral.vasani@crisil.com">hiral.vasani@crisil.com</a></p> <p><b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a></p>	<p>Anuj Sethi Senior Director <b>CRISIL Ratings Limited</b> B:+91 44 6656 3100 <a href="mailto:anuj.sethi@crisil.com">anuj.sethi@crisil.com</a></p> <p>Anand Kulkarni Director <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:Anand.Kulkarni@crisil.com">Anand.Kulkarni@crisil.com</a></p> <p>ANISH SALUJA Manager <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:ANISH.SALUJA@crisil.com">ANISH.SALUJA@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>



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