CRISIL Ratings

Rating Rationale

December 29, 2023 | Mumbai

Embassy Office Parks Reit

Rated amount enhanced for Commercial Paper

Rating Action

Rs.700 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.600 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.800 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.1000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.3100 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.300 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.2600 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.700 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.550 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Corporate Credit Rating	**CRISIL AAA/Stable (Reaffirmed)**
Rs.1000 Crore (Enhanced from Rs.500 Crore) Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the non-convertible debentures (NCDs), corporate credit rating and commercial paper of Embassy Office Parks REIT (Embassy REIT).

CRISIL Ratings has also taken note of the change in shareholding of the REIT sponsors, with BRE Mauritius Investments (part of the "Blackstone" group) one of the sponsors in Embassy REIT has sold its entire holding of 23.6% on December 20, 2023 through a block deal valued at Rs 7,148 crore.

While Blackstone has sold its entire stake in the REIT, it continues to remain a sponsor of the REIT and holds 49% stake in the REIT manager, Embassy Office Parks Management Services Pvt. Ltd (EOPMSPL). As per regulations, change of sponsor will require approval from seventy-five per cent of the unit holders by value excluding the value of units held by parties related to the transaction. The process for change in sponsor is expected to take at least 90 days' time. Also, in case Blackstone's stake in the REIT were to fall below 10%, entire shareholding in the REIT manager will move to the Embassy group based on the shareholder's agreement between Embassy and Blackstone. The same was approved vide board meeting held on July 28, 2021 and shareholder resolution passed on August 27, 2021. This transfer of shareholding will require certain approvals and will take at least 60 days to pan out. The sponsorship of the REIT and shareholding of EOPMSPL are expected to change over the next few quarters.

The REIT manager is expected to have adequate checks in place to ensure strong corporate governance and adherence to Securities and Exchange Board of India (SEBI) guidelines with respect to REITs. 50% of the directors in REIT Manager are independent, in line with SEBI guidelines. Further, sponsors are prohibited from voting on related party transactions. Majority shareholder approvals/independent opinions are sought if transaction values exceed certain pre-defined caps and sponsors are prohibited from voting on such transactions as well. These highlight strong governance practices followed by the REIT.

Hence, stake sale by Blackstone is not expected to have any material bearing on the credit profile of Embassy REIT.,

The ratings continue to reflect the trust's satisfactory loan-to-value (LTV) ratio driven by moderate debt and healthy debt protection metrics, supported by a cap on incremental borrowings. Further, stable revenue and rent collection from the underlying assets, healthy occupancy, contractual rent escalations and geographical diversification support the leverage levels. While the LTV has increased in the recent past, CRISIL Ratings expects prudent debt management by Embassy REIT and leverage level to come down gradually. The rating continues to factor in exposure to refinancing risks and susceptibility to volatility in the real estate sector, resulting in fluctuations in rental rates and occupancy. The refinancing risks are expected to be mitigated by proactive refinancing strategies. Embassy REIT refinanced Rs 5,340 crore of debt at an average rate of interest of 7.9% p.a. in fiscal 2023 and has also refinanced Series II NCDs of Rs. 1500 crore in September 2023.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Embassy REIT with its underlying special purpose vehicles (SPVs) and has applied the criteria for rating entities in homogeneous groups. This is because Embassy REIT has direct control over the SPVs and will support them during exigencies. Additionally, there is minimal structural subordination of cash flow, wherein the SPVs must mandatorily distribute 90% of their net distributable cash flow (after servicing of debt) to Embassy REIT, leading to highly fungible cash flow. Also, as per the Real Estate Investment Trust (REIT) Regulations, 2014, of Securities and Exchange Board of India (SEBI), the cap on borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the value of Embassy REIT's assets).

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Satisfactory debt protection metrics: Consolidated gross debt rose to Rs 15,481 crore as on September 30, 2023, from Rs 13,549 crore as of September 30, 2022. The increase in debt level was mainly due to the acquisition of Embassy business Hub with exclusive ownership rights to around 14 lakh sq. ft and bank debt raised for capital expenditure (capex) requirements at SPV level. Going forward debt-funded capex or potential acquisitions may further increase the consolidated gross debt. However, in line with management articulation, the gearing levels are expected to be maintained or brought down in the medium term. A lower LTV ratio protects investors from the risk of decline in property prices and the consequent impact on refinancing.

Stable revenue of SPVs held by the REIT: More than 90% of the revenue comes from 12 established and high-quality commercial assets and one solar park, with stable operations and track record of at least five years of rental collection. Consolidated revenue was Rs 1,958 crore for H1 fiscal 2024 as against Rs 1,831 crore for the corresponding period in fiscal 2022, supported by improvement in performance of the hospitality segment, including commencement of operations at Hilton and Hilton Garden Inn at Embassy Manyata and incremental rentals from 11 lakh sq. ft of area added in Embassy TechVillage. The REIT renewed/entered into new agreements to the tune of 31 lakh sq. ft for H1 fiscal 2024 at a re-leasing spread of ~12%. 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 453 lakh sq. ft of available office area with a healthy mix of operational area of 353 lakh sq. ft and under-construction assets. The commercial assets have robust occupancy, averaging 83% as on September 30, 2023, with a multinational occupier base over 240 tenants across industries, of which Fortune 500 companies account for 47%.

Weaknesses:
Susceptibility to volatility in the real estate sector: Rental collection (key source of revenue) is susceptible to economic downturns, which constrains the tenant's business risk profile and, therefore, occupancy and rental rates. Top 10 tenants and technology sector contribute to 36.2% and 36% of gross occupied area, respectively, as on September 30, 2023, exposing the REIT to moderate concentration risk. Further, as on September 30, 2023, 22% of the leased area will be due for renewal between fiscals 2024 and 2027. While majority of the tenants are established corporates and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time. Emergence of competing facilities in the vicinity could also have the potential to cannibalise tenants or rental rates. These could adversely impact cash flow, and hence, will be key rating sensitivity factors.

Exposure to refinancing risks: All NCDs issued by the REIT have bullet payments at the time of redemption, thereby exposing the REIT to the risk of refinancing. While the REIT has staggered the bullet repayment timelines, active and timely treasury management remains essential. The risk is mitigated by the availability of call option in NCDs, healthy consolidated leverage and experience of the management.

Embassy REIT has NCDs (Series III) of Rs. 2600 crore which will be due for repayment on 15th February 2024. Trust has exercised the call option to redeem all of the debentures issued under the deed on 15th January 2024. Trust is expected to refinance Rs 2600 crores maturity through a mix of NCDs, Commercial paper and bank loans. The same will remain a key monitorable.

All the NCD instruments have call options available prior to the final maturity, which provides the trust with sufficient time to arrange funds or refinance the NCDs prior to the due date. Further, SPVs of REIT have the flexibility to raise lease rental discounting (LRD) loans from banks for the purpose of refinancing the NCDs, thereby giving access to large pool of capital from financial institutions. Further, new avenues of capital are available in the form of investments from pension funds, insurance companies and foreign portfolio investors, which mitigates refinancing risk to some extent.

Liquidity: Superior
Liquidity is supported by stable cash flows from underlying assets. Debt level remains moderate for the REIT with LTV at 29.4% as on September 30, 2023 (as per external valuation). NCDs are non-amortising, exposing the debenture-holders to refinancing risk. However, the conditions around redemption provide the REIT with sufficient time to arrange for refinancing. Furthermore, LTV of the REIT is expected to remain well below 40%, protecting investors from the risk of decline in property prices and the consequent impact on refinancing. As of September 30, 2023, Embassy REIT had a cash balance of Rs 160.8 crore to support its day-to-day operations as well as undisbursed debt of Rs 904.0 crores for ongoing construction activities.

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

Rating Sensitivity Factors
Downward Factors:

- Decline in the value of the underlying assets or higher-than-expected incremental borrowings, resulting in CRISIL Ratings sensitised LTV ratio of 40% or above
- Occupancy level declining below 85% on a sustained basis
- Significant delay in completion and leasing of under-construction assets or acquisition of assets of lower quality affecting portfolio health
- Any non-adherence to the structural features of the rated debt
- Any impact on independence of REIT operations due to but not limited to change in sponsorship of the trust or ownership of the REIT manager

About the Trust
Embassy REIT is registered as an irrevocable trust under the Indian Trust Act, 1882, and as a REIT with SEBI's REIT Regulations, 2014, as amended. Embassy REIT is sponsored by BRE Mauritius Investments (part of the Blackstone Group) and Embassy Property Development Pvt. Ltd (part of the Embassy group). It has 13 commercial assets (office parks and city-centric offices), six hotels (of which two are under construction) and a solar plant. Embassy REIT's portfolio of assets are held through the following SPVs:

Indian Express Newspapers (Mumbai) Pvt. Ltd (IENMPL) owns and operates a commercial property, Express Towers, in Nariman Point, Mumbai. The property has been operational for over four decades and has a total leasable area of 4.7 lakh sq. ft, of which 90% was occupied as on September 30, 2023

Quadron Business Park Pvt. Ltd (QBPL) owns and operates a commercial information technology (IT) park, Embassy Quadron, in Hinjewadi, Pune. The property has been operational since 2010 and has a total leasable area of 18.9 lakh sq. ft, of which 50% was occupied as on September 30, 2023. It also owns and operates mixed-use development, consisting of office and retail space and a hotel in north Bengaluru. The property Embassy One has a total leasable area of 2.5 lakh sq. ft, of which 78% was occupied as on September 30, 2023. The hotel, consisting of 230 rooms, run under the Four Seasons brand.

Qubix Business Park Pvt. Ltd (QBPPL) owns and operates a commercial IT park, Embassy Qubix, in Hinjewadi, Pune. The company has a track record of seven years in lease rental collection. Of the total leasable area of 14.5 lakh sq. ft, 91% was leased as on September 30, 2023.

Earnest Towers Pvt. Ltd (ETPL) owns and operates 3.6 lakh sq. ft of First International Finance Centre (FIFC) in Bandra Kurla Complex, Mumbai, of which 91% was occupied as on September 30, 2023

Vikhroli Corporate Park Pvt. Ltd (VCPPL) owns a commercial property, Embassy 247, in Vikhroli, Mumbai. It has been operational for eight years and has total leasable area of 11.9 lakh sq. ft, of which 100% was leased as on September 30, 2023

Galaxy Square Pvt. Ltd (GSPL) owns and operates an IT park, Embassy Galaxy, in Sector 62, Noida. The company has a track record of seven years in lease rental collection, and 52% of the entire leasable area of 15.0 lakh sq. ft was leased as on September 30, 2023

Oxygen Business Park Pvt. Ltd (OBPPL) owns and operates a commercial IT park, Embassy Oxygen, in Sector 144, Greater Noida. The property is part of the Oxygen Boulevard IT Special Economic Zone and has been operational for six years. The property has completed area of 25.2 lakh sq. ft, of which 68% was leased as on September 30, 2023, while around 7 lakh sq. ft is under development.

Manyata Promoters Pvt. Ltd (MPPL) owns and operates Embassy Manyata Business Park, Bengaluru. The commercial complex is spread over 120 acres. The company has developed 124 lakh sq. ft, in addition to which 3.5 lakh sq. ft. is being upgraded. Of this area 81% was leased as on September 30, 2023, while around 31 lakh sq. ft is under development and around 4 lakh sq. ft is proposed to be developed. The company has recently developed a five-star and a three-star hotel with 266 rooms and 353 rooms, respectively, 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 67% as on September 30, 2023

Embassy Pune Techzone Pvt. Ltd (EPTPL), owns an office park, Embassy Techzone, in Hinjewadi, Pune. Of the total area of 30 lakh sq. ft, 70% was leased as on September 30, 2023, while 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 Inner Ring Road, Bengaluru. The company has developed 31 lakh sq. ft, of which 97% was leased as on September 30, 2023

Vikas Telecom Pvt. Ltd (VTPL) and Sarla Infrastructure Pvt. Ltd (SIPL) own and operate ETV, Bengaluru. The commercial complex is spread over 84.05 acres consisting of 73 lakh sq. ft of completed office premises, 23 lakh sq. ft of under-construction office space and a proposed hotel of 518 keys. Of the total operational area of 73 lakh sq. ft, 97% was leased out as on September 30, 2023

Embassy Construction Pvt. Ltd. (ECPL) is constructing and developing an integrated business park at Yelahanka, Hobli Bengaluru under the name of Embassy Business Hub. Embassy REIT acquired Embassy Business Hub for an enterprise value of Rs 335 crore with exclusive ownership rights to around 14 lakh sq. ft of leasable area upon full completion. Embassy Business Hub is an integrated business park in North Bengaluru and is expected to comprise total leasable area of around 21 lakh sq. ft upon full completion.

For the H1 fiscal year 2024, profit after tax (PAT) was Rs 489 crore on a consolidated Total revenue from operations of Rs 1,958 crore against PAT of Rs 340 crore and consolidated Total revenue from operations of Rs 1,831 crore over the corresponding period of the previous fiscal.

Key Financial Indicators

For fiscal	Unit	2023	2022
Revenue	Rs.Crore	3,748	3,173
Profit After Tax (PAT)	Rs.Crore	582	888
PAT Margin	%	15.5	28.0
Adjusted gearing	Times	0.59	0.47
Interest coverage	Times	2.82	2.92

Any other information

The terms and conditions of the NCDs are mentioned below:

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
- 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

Series VI
REIT level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.

Asset Level
- Security cover >=2.0x

Series VII
REIT level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of Secured Assets <= 40%.

Asset Level
- Security cover >=2.0x

Series VIII
REIT Level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of the REIT Group <= 40%.

Asset Level
- Security cover >=2.0x

Series IX
REIT Level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of the REIT Group <= 40%.

Asset Level
- Security cover >=2.0x

Proposed NCDs of Rs. 600 crore
REIT level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of Secured Assets <= 40%.

Asset Level
- Security cover >=2.0x

Proposed NCDs of Rs. 700 crore
REIT level
- Net Total Debt / EBITDA of the REIT Group <= 5.5x.
- LTV of Secured Assets <= 40%.

Asset Level
- Security cover >=2.0x

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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
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
INE041007092	Non-convertible debentures	05-Apr-22	7.35%	05-Apr-2027	1,000	Complex	CRISIL AAA/Stable
INE041007100	Non-convertible debentures	05-Jun-23	7.77%	05-Jun-2025	1050	Complex	CRISIL AAA/Stable
INE041007118	Non-convertible debentures	28-Aug-23	8.10%	28-Aug-28	500	Complex	CRISIL AAA/Stable
INE041007126	Non-convertible debentures	04-Sep-23	8.03%	04-Sep-25	500	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	600	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	700	Complex	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7-365 days	1000	Simple	CRISIL A1+

**Yet to be issued*

Annexure - List of Entities Consolidated*

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
IENMPL	Full	100% subsidiary
QBPL	Full	100% subsidiary
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
SIPL	Full	100% subsidiary
ECPL (w.e.f. March 31,2023)	Full	100% subsidiary
GLSP	Partial	Investment entity consolidated to the extent of 50%

*as on March 2023

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable	19-12-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable		--		--	--
				05-12-23	CRISIL AAA/Stable	06-12-22	CCR AAA/Stable		--		--	--
			--	13-07-23	CRISIL AAA/Stable	17-03-22	CCR AAA/Stable		--		--	--
			--	26-05-23	CRISIL AAA/Stable	20-01-22	CCR AAA/Stable		--		--	--
			--	06-04-23	CRISIL AAA/Stable		--		--		--	--
			--	28-02-23	CRISIL AAA/Stable		--		--		--	--
Commercial Paper	ST	1000.0	CRISIL A1+	19-12-23	CRISIL A1+		--		--		--	--
Non Convertible Debentures	LT	10350.0	CRISIL AAA/Stable	19-12-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	25-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable
			--	05-12-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	05-10-21	CRISIL AAA/Stable	21-09-20	CRISIL AAA/Stable	--
			--	13-07-23	CRISIL AAA/Stable	17-03-22	CRISIL AAA/Stable	24-08-21	CRISIL AAA/Stable	26-08-20	CRISIL AAA/Stable,Provisional CRISIL AAA/Stable	--
			--	26-05-23	CRISIL AAA/Stable	20-01-22	CRISIL AAA/Stable	17-08-21	CRISIL AAA/Stable	05-08-20	CRISIL AAA/Stable	--
			--	06-04-23	CRISIL AAA/Stable		--	15-06-21	CRISIL AAA/Stable	16-05-20	CRISIL AAA/Stable	--
			--	28-02-23	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
Criteria for rating entities belonging to homogenous groups
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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