EMBASSY OFFICE PARKS REIT

October 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures-proposed	500.00	CARE AAA; Stable	Assigned
Issuer rating Issuer Rating	0.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned/ reaffirmed on the facilities/ instruments of Embassy Office Parks REIT (EOPR) continues to derive strength from its diversified asset portfolio of commercial office space, hospitality, and renewable energy assets. The REIT has strong portfolio of Grade-A commercial office assets with a completed leasable area of 34.30 million square feet (msf) spread across Bengaluru, Mumbai, Pune, and the National Capital Region (NCR). The property is largely occupied by marque tenants across business sectors, although dominated by multi-national companies (MNCs) and information technology (IT) and information technology-enabled services (ITeS) companies which results into strong collection efficiency.

Strong occupancy of 85% as of June 30, 2023, with low lease expiries over the medium term provides healthy revenue visibility. Furthermore, with back-to-office resumption, CARE Ratings Limited (CARE Ratings) expects the occupancy to sustain over the medium term however impact of reduced marketability of the special economic zone (SEZ) area and delayed decision-making by corporates to take additional space among global headwinds, is to be seen. Nevertheless, CARE Ratings takes note of the fact that most of the leases expired or expected to expire in the near to medium term are yielding rentals lower than the current market rates, and therefore, EOPR is likely to benefit from the mark-to-market (MTM) opportunity through higher re-leasing spread from re-leasing of vacant spaces. The REIT continued to report strong net operating income (NOI) as on June 30, 2023, aided by new leases at higher rentals and a sharp recovery in hotels' performance. As such, EOPR's ability to sustain the occupancy levels and realise MTM gains will be a rating monitorable.

Since its launch, EOPR has demonstrated strong financial risk management, characterised by low loan-to-value (LTV), comfortable debt/earnings before interest, depreciation, taxes, and amortisation (EBIDTA), and debt-service coverage ratio (DSCR) levels. CARE Ratings also takes note of the debt-funded acquisition of Embassy Construction Private Limited by EOPR and a non-binding offer letter with the Embassy sponsor to acquire another commercial office space in Chennai. While CARE Ratings believes that the debt protection metrics are likely to remain strong, the funding pattern for the acquisition will be closely monitored.

The restrictions under the Securities and Exchange Board of India (SEBI) regulations, which limit the share of under-construction assets to less than 20% and net debt/gross asset value (GAV) to <49%, enhance credit protection.

These strengths far outweigh the refinancing risk associated with the non-convertible debenture (NCD) and term loan repayments at EOPR and its subsidiaries. Nevertheless, EOPR has demonstrated in the past, raising of debt at competitive rates to refinance the debt. EOPR is also exposed to the execution and marketing risks associated with the upcoming projects and the cyclicality of the real estate and hospitality sectors.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable.

Negative factors

- Net debt/GAV of more than 35%.
- Consolidated net debt/EBIDTA[2] of more than 5.5x.

Analytical approach: Consolidated.
The analysis of EOPR is carried out on a consolidated basis, which includes its subsidiaries and associates mentioned in Annexure-6. The consolidated approach is taken due to the strong operational, financial, and managerial linkages between the entities.

Outlook: Stable
The 'Stable' outlook reflects CARE Ratings' expectation of EOPR to continue to maintain strong debt protection metrics, aided by stable occupancy levels.

Detailed description of the key rating drivers:

Key strengths

Fairly diversified asset portfolio of EOPR: EOPR's asset portfolio consists of commercial office space across four cities, hospitality, and a captive solar plant of 100 MW capacity. As on June 30, 2023, EOPR had 45 msf of commercial space area, of which 34.3 msf is completed and 85% is occupied, 7.9 msf of under-construction space, while 2.8 msf is proposed development. The commercial space is diversified in Bengaluru, Mumbai, Pune, and the NCR region. EOPR also has completed hotels with an inventory of 1,096 keys and under-construction hotels of 518 keys in Bengaluru, apart from a 100-MW solar park located in Bellary, Karnataka. The commercial office space portfolio contributes nearly 90% of the REIT's total revenue. Diversification in asset class and geographies mitigates the micro-market and industry-specific issues to a certain extent.

Healthy occupancy of commercial assets and recovery in the hospitality segment: The occupancy levels of commercial office spaces remained healthy at 85% as on June 30, 2023, although moderated slightly from 86% as on March 31, 2023. More than 50% of the vacant space as on June 30, 2023, is in the SEZ space. Areas in the SEZ spaces are inherently witnessing delayed leasing hence EOPR is in the process of de-notifying some of its SEZ spaces, which is likely to enhance its marketability. Leasing is also impacted due to global headwinds amid recessionary trends, which has also delayed the capex decision of several global companies. Furthermore, most of the leases expired or expiring were old leases generating lower than the current market rates, providing reasonable MTM opportunity to EOPR. The assets of EOPR are occupied by tenants with strong credit profiles, with almost half of the gross leasable area leased out to Fortune 500 companies. The satisfactory weighted average lease expiry (WALE) of around seven years provides revenue visibility for the longer term.
The hotel properties were impacted severely by COVID-19, however, there is a sharp recovery in these assets. The improvement is driven by pent-up demand from business travel activity and corporate events.
While CARE Ratings continues to have a long-term positive outlook on commercial real estate, the short-term leasing prospects are impacted as corporates are hesitant to take up space in the SEZ area and due to global headwinds amid recessionary fears. While Embassy REIT is well poised to overcome such temporary phenomenon, its ability to maintain the occupancy levels will be closely monitored.

Strong debt protection metrics of EOPR: The debt protection metrics of EOPR, marked by LTV of 29% and net debt to EBIDTA of less than 5.0x, remained comfortable, giving it headroom to raise additional debt to fund future growth plans. CARE Ratings takes note of the debt-funded acquisition of the commercial office space of 'Embassy Business Hub' and the non-binding offer letter entered into with the Embassy sponsor to acquire an asset, viz, Embassy Splendid Techzone in Chennai. CARE Ratings expects the above metrics to remain largely unchanged after the acquisition, although the mode of funding of the acquisition will be closely monitored.

[2] For the calculation of debt/EBIDTA, EBIDTA is calculated as defined in NCD documents. As per which, EBIDTA also include 50% of EBIDTA of Golflinks Software Park P Limited plus fitout rentals plus rental support income.

Key weaknesses

Execution risk associated with projects under development: EOPR plans to incur a capex of ₹4,214 crore, on a consolidated basis over the near to medium term (₹3,991crore is the pending cost to complete as on June 30, 2023), which is likely to be get funded through debt. While the execution risk will persist to timely complete the project, comfort is drawn from the successful track record of EOPR in executing such projects. As per CARE Ratings' estimates, the net debt/GAV and net debt/EBIDTA are expected to remain below 35% and 5.5x in the near to medium term.

High refinancing risk: The debt raised by EOPR and its subsidiaries are to be repaid in a bullet payment at the end of three to five years, exposing it to high refinancing risk. However, risks are mitigated to an extent given staggered repayment structure over the medium term, availability of large pool of capital through upstream of funds from special purpose vehicles (SPVs) to REIT and high financial flexibility arising from the low LTV which provides ample headroom to raise additional debt or equity. The REIT also has flexibility to exercise the call option which provides opportunity to prepay the debt four to six months prior to final maturity. CARE Ratings also takes note of the demonstrated track record of EOPR in refinancing several debts in past both at REIT and SPV level. The proposed NCDs are also expected to get utilised for the upcoming debt repayments in the near term at SPV or REIT level.

Liquidity: Strong.
The liquidity of EOPR is superior owing to the strong debt coverage indicators, aided by minimal interim principal payments. While the bullet repayment exposes it to high refinancing risk, EOPR's low debt/GAV allows ample headroom to raise additional debt, including raising LRD loans in SPVs from banks for refinancing of NCDs. All the NCD instruments have multiple call options before the final maturity, which enables them to refinance the NCDs prior to the due date. Furthermore, restrictions imposed under REIT regulations in terms of undertaking under-construction projects limit the cash outflow towards the capex. At the consolidated level, EOPR had cash and cash equivalents of ₹425 crore as on June 30, 2023.

Assumptions/Covenants:

Name of the Instrument		Detailed Explanation
A.	**Financial covenants**	
I.	Net total debt/ EBIDTA	= < 5.5x
II.	Security cover	= > 2.0x.

Environment, social, and governance (ESG) risks:
Environment: Stricter environmental regulations could drive-up operational costs in the real estate sector. Project launches require environmental clearances, and delays could harm business profile. Additionally, changing environmental rules may pose credit risks for property development permits. EOPR has been taking several measures to address the concerns around it. Half of the energy consumption is in the form of renewable energy. Consistent efforts are being made to reduce water consumption, organic waste converter capacity increase, etc. All EOPR's buildings are USGBC LEED certified. Its assets were also awarded a five-star rating by the British Safety Council for Occupational Health and Safety. Almost 96% of leases signed are 'green leases' to reduce the environmental impact of property.

Social: The on-going demand growth for commercial office spaces in India, particularly for quality assets with strong infrastructure and connectivity, aligned with the service sector's expansion limits the risks. While trends like remote work preferences may potentially affect demand negatively, the overall outlook for the commercial real estate sector appears demanding. Rapid urbanisation and a sizable working-age population are expected to drive commercial real estate demand in India.

Governance: On the governance front, 50% of the board comprises independent directors and there are adequate related-party safeguards. The ESG due diligence has been completed for all the assets.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[Rating methodology for Debt backed by lease rentals](#)
[Rating Methodology – Real estate Investment Trusts (REITs)](#)
[Policy on Issuer rating](#)
[Policy on consolidation](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Realty	Realty	REITs

EOPR is India's first publicly listed REIT sponsored by Blackstone (BRE Mauritius) and Embassy Property Development Pvt Ltd. As on March 31, 2023, EOPR has a 45 msf portfolio of eight infrastructure-like office parks and four city centre office buildings in the cities of Bengaluru, Pune, Mumbai, and the NCR. EOPR's portfolio comprises 34.3 msf completed operating area, with an occupancy of 86% as on March 31, 2023. The portfolio also comprises a 1,096-key operational business hotel, a 518-key under-construction hotel, and a 100-MW solar park supplying renewable energy to park occupiers.

Brief Financials-consolidated (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	3050	3530	914
PBILDT	2386	2654	680
PAT	888	506	234
Overall gearing (times)	0.67	0.88	0.93
Interest coverage (times)	2.88	2.72	2.66

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non convertible debentures	-	Proposed	Proposed	Proposed	500.00	CARE AAA; Stable
Debentures-Non convertible debentures	INE041007118	August 28, 2023	8.10	August 28, 2028	500.00	CARE AAA; Stable
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer rating-Issuer ratings	Issuer rating	0.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (02-Dec-22)	-	-
2	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-23)	-	-	-
3	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable				

*LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Issuer rating-Issuer ratings	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure -6: List of subsidiaries consolidated as on June 30, 2023:

S. No	Entity name	Shareholding %
1	Embassy Office Ventures P Ltd. (EOVPL)	100%
2	Sarla Infrastructure P Ltd.	100%
3	Vikas Telecom Private Limited	100%
4	Indian Express News Papers (Mumbai) P Limited	100%
5	Quadron Business Park Private Limited	100%
6	Qubix Business Park Private Limited	100%
7	Earnest Towers Private Limited	100%
8	Vikhroli Corporate Park Private Limited	100%
9	Galaxy Square Private Limited	100%
10	Oxygen Business Park Private Limited	100%
11	Embassy Pune Techzone Private Limited	100%
12	Manyata Promoters Private Limited (Manyata)	100%
13	Embassy Energy Private Limited	20% (balance 80% by Manyata)

S. No	Entity name	Shareholding %
14	Umbel Properties Private Limited	100%
15	Embassy Construction Private Limited	100%
16	Golflinks Software Park Private Limited (EGL)	50% (through Manyata)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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