

## EMBASSY OFFICE PARKS REIT

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating Issuer Rating	0.00	CARE AAA; Stable	Reaffirmed
Non-Convertible Debentures	500.00	CARE AAA; Stable	Reaffirmed
Non-Convertible Debentures	500.00	CARE AAA; Stable	Reaffirmed
Commercial Paper	1,000.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned/ reaffirmed on the debt instruments/bank facilities 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 35.30 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 83% as of September 30, 2023, with low lease expiries over the medium term provides healthy revenue visibility. Furthermore, with back-to-office resumption and latest direction by Government of India (GOI) on de-notification of Special Economic Zone (SEZ) properties, CARE Ratings Limited (CARE Ratings) expects the occupancy to improve and remain strong over the medium term. 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 September 30, 2023, aided by new leases at higher rentals and sustenance in hotel performance after a sharp recovery post covid. 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 cash coverage ratio (CCR). CARE Ratings also takes note of the debt-funded capital expenditure over the medium term despite which debt protection metrics are likely to remain strong.

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.

CARE Ratings has noted the news update in the public domain on December 20, 2023, regarding 'Blackstone exits from EOPR through sales of entire 23.5% stake'. However, EOPR being listed and regulated has to abide by the regulations articulated by the regulator, SEBI for REITs. Hence, to comply with it, Blackstone continues to be a sponsor for the trust till they receive requisite approval in line with SEBI REIT regulations.

CARE Ratings further notes that the manager of the REIT has implemented and will continue to implement measures to enhance corporate governance, in compliance with SEBI directives on nominee director rights for Unitholders with more than 10% unitholding either individually or collectively. Half of the directors in the REIT Manager are independent, aligning with SEBI guidelines.

CARE Ratings understands that the operations of the REIT and its properties are not expected to be impacted by the above event, given majority of the assets in the portfolio are operational and performing independently. However, CARE Ratings will be monitoring how the event unfolds in the medium term.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

These strengths far outweigh the refinancing risk associated with the debt instruments 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 cyclical nature of the real estate and hospitality sectors.

### 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<sup>2</sup> 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 September 30, 2023, EOPR had 45 msf of commercial space area, of which 35.3 msf is completed and 83% is occupied, 7.1 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 83% as on September 30, 2023, although moderated slightly from 85% as on June 30, 2023. More than 50% of the vacant space as on September 30, 2023, is in the SEZ space. The areas in the SEZ spaces have been 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. Also, latest direction by GOI on the denotification of SEZ properties is expected to benefit the trust in leasing ramp up. Furthermore, leasing is also impacted due to global headwinds amid recessionary trends, which has also delayed the capex decision of several global companies.

However, 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 has been a sharp recovery in these assets. The improvement is driven by pent-up demand from business travel activity and corporate events.

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

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 5.5x, remained comfortable, giving it headroom to raise additional debt to fund future growth plans. CARE Ratings takes note of proposed debt-funded capital expenditure over the medium term despite which the metrics are expected to remain strong.

## 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 (₹3,800 crore is the pending cost to complete as on September 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 CP has a maturity of 6-12 months which further increases the risk of refinancing. The NCDs (series III) of ₹2,600 crore has scheduled bullet repayment on February 15, 2024, however EOPR has exercised the call option to pay the debt on January 15, 2024. Proceeds from proposed CP and new NCD issues are expected to be utilised for the refinancing of ₹2,600 crore debt however remains key rating monitorable.

## 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 ₹685 crore as on September 30, 2023.

## Assumptions/Covenants:

Name of the Instrument		Detailed Explanation
<b>A. Financial covenants</b>		
<b>I.</b>	Net total debt/ EBIDTA	= < 5.5x
<b>II.</b>	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](#)  
[Short-term instruments](#)  
[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 September 30, 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 35.3 msf completed operating area, with an occupancy of 83% as on September 30, 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)	H1FY24 (UA)
Total operating income	3050	3530	1907
PBILDT	2386	2654	1453
PAT	888	506	450
Overall gearing (times)	0.67	0.88	0.65
Interest coverage (times)	2.88	2.72	2.81

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	INE041007118	August 28, 2023	8.10	August 28, 2028	500.00	CARE AAA; Stable
Debentures-Non convertible debentures	Proposed	Proposed	Proposed	Proposed	500.00	CARE AAA; Stable
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA; Stable
Commercial Paper-Commercial Paper	Proposed	Proposed	Proposed	Proposed	1000.00	CARE A1+

**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 (31-Oct-23) 2)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 (31-Oct-23) 2)CARE AAA; Stable (06-Jul-23)	-	-	-
3	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (31-Oct-23)	-	-	-
4	Commercial Paper-Commercial Paper	ST	1000.00	CARE A1+	-	-	-	-

\*LT: Long-term/ ST: Short-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	Commercial Paper-Commercial Paper	Simple
2	Debentures-Non Convertible Debentures	Simple
3	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 September 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)
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](mailto:care@careedge.in) for any clarifications.

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### About us:

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