EMBASSY OFFICE PARKS REIT

April 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	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	1,100.00 (Enhanced from 1,000.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of long-term and short-term ratings on debt instruments/commercial paper of Embassy Office Parks REIT (Real Estate Investment Trust) (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 35.80 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 result into strong collection efficiency.

Strong occupancy of 84% as of December 31, 2023, with low lease that expiries over medium term provides healthy revenue visibility. with back-to-office resuming and latest direction by the Government of India (GOI) on de-notifying Special Economic Zone (SEZ) properties, CARE Ratings Limited (CARE Ratings) expects occupancy to improve and remain strong over the medium term. CARE Ratings takes note of the fact that most leases expired or expected to expire in the near-to-medium term are yielding rentals lower than 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 December 31, 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 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 to earnings before interest, depreciation, taxes, and amortisation (EBIDTA) and cash coverage ratio (CCR). CARE Ratings also considers the debt-funded capital expenditure over the medium term, despite which, debt protection metrics are likely to remain strong.

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

CARE Ratings notes that the REIT plans to raise equity proceeds through Institutional Placement of around ₹2,500 crore, of which, the structure and timing has not been determined yet, to be utilised for acquiring asset Embassy Splendid TechZone in Chennai with an Enterprise Value of about ₹1,269 crore, while the balance money shall be utilised to pay external debt. This fund raise and purchase of asset is subject to unitholders approval and other applicable regulatory approvals. The proposed debt reduction is expected to moderate debt metrics further.

CARE Ratings further notes that the REIT's manager 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.

These strengths far outweigh refinancing risks associated with debt instruments and term loan repayments at EOPR and its subsidiaries. EOPR has demonstrated its ability to raise debt at competitive rates to refinance its debt in the past. EOPR is also exposed to execution and marketing risks associated with upcoming projects and cyclicality of real estate and hospitality sectors.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

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

Negative factors

- Net debt/GAV of more than 35%.
- Consolidated net debt/EBITDA[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 considering strong operational, financial, and managerial linkages between entities.

Outlook: Stable

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

Detailed description of 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 December 31, 2023, EOPR had 45.4 msf of commercial space area, of which 35.8 msf is completed and 84% is occupied, 6.9 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, under-construction hotels of 518 keys in Bengaluru, and a 100-MW solar park in Bellary, Karnataka. The commercial office space portfolio contributes nearly 90% of the REIT's total revenue. Diversification in asset class and geographies mitigates 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 84% as on December 31, 2023, more than 50% of the vacant space is in SEZ. Areas in SEZ spaces have been inherently witnessing delayed leasing, hence EOPR is de-notifying some of its SEZ spaces, which is likely to enhance its marketability. The latest direction by GOI on denotification of SEZ properties is further expected to benefit the trust in leasing ramp up. Leasing is also impacted due to global headwinds amid recessionary trends, which has also delayed capex decision for several global companies.

However, most leases expired or expiring, were old leases, generating lower than the current market rates, providing reasonable MTM opportunity to EOPR. EOPR's assets are occupied by tenants with strong credit profiles, and almost half of the gross leasable area is leased out to Fortune 500 companies. The satisfactory weighted average lease expiry (WALE) of around seven years provides revenue visibility for the longer term.

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.

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 occupancy levels will be closely monitored.

Strong debt protection metrics

EOPR's debt protection metrics, marked by net debt to GAV of 30% 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 believes the expected equity fund raising through Institutional Placement, part of which, will be utilised to repay external debt, will support the REIT to moderate debt metrics further.

Key weaknesses

Execution risk associated with projects under development

EOPR plans to incur a capex on a consolidated basis in the near-to-medium term (₹3,500 crore is pending cost to complete as on December 31, 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 EOPR's successful track record in executing such projects. Per CARE Ratings' estimates, 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 3-5 years, exposing it to high refinancing risk. However, risks are mitigated to an extent given staggered repayment structure in 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 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 4-6months prior to final maturity. CARE Ratings also considers EOPR's demonstrated track record in refinancing several debts in the past at REIT and SPV levels. The CP has a maturity of 3-6 months, which further increases the risk of refinancing. NCDs amounting ₹2,000 crore has a scheduled bullet repayment in Q3FY25, which is proposed to be repaid by a mix of balance proceeds of Institutional Placement and refinancing through NCDs. Such key events remain monitorable from credit perspective.

Liquidity: Strong

EOPR's liquidity is superior, owing to strong debt coverage indicators, aided by minimal interim principal payments. While 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 NCDs. All NCD instruments have multiple call options before final maturity, which enables them to refinance NCDs prior to the due date. Restrictions imposed under REIT regulations in terms of undertaking under-construction projects, limit cash outflow towards capex. At a consolidated level, EOPR had cash and cash equivalents of ₹579 crore as on December 31, 2023.

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. Changing environmental rules may pose credit risks for property development permits. EOPR has been taking several measures to address concerns around it. Half the energy consumption is from renewable energy. Consistent efforts are made to reduce water consumption, and organic waste converter capacity increase, among others. 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 property's environmental impact.

Social: The on-going demand growth for commercial office spaces in India, particularly for quality assets with strong infrastructure and connectivity, aligned with service sector's expansion limits risks. While trends such as remote work preferences may potentially affect demand negatively, 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 assets.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Factoring Linkages Parent Sub JV Group
Rating methodology for Debt backed by lease rentals
Real Estate Investment Trusts (REITs)
Short-term instruments
Issuer Rating
Consolidation

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Real estate investment trusts (REITS)

EOPR is India's first publicly listed REIT, sponsored by Embassy Property Development Pvt Ltd. As on December 31, 2023. EOPR (market cap: ~₹35,000 crore) has a 45.4 msf portfolio of eight infrastructure, including office parks and four city centre office buildings in Bengaluru, Pune, Mumbai, and the NCR. EOPR's portfolio comprises 35.8 msf completed operating area, with an occupancy of 84% as on December 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)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	3,050	3,530	2,834
PBILDT	2,386	2,654	2,153
PAT	888	506	681
Overall gearing (times)	0.67	0.88	1.00
Interest coverage (times)	2.88	2.72	2.78

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE041007118	28-08-2023	8.10	28-08-2028	500.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	Proposed	Proposed	Proposed	Proposed	500.00	CARE AAA; Stable
Commercial Paper-Commercial Paper	INE041014023	08-01-2024	8.30	07-01-2025	750.00	CARE A1+
Commercial Paper-Commercial Paper	INE041014015	08-01-2024	8.30	14-06-2024	250.00	CARE A1+
Commercial Paper-Commercial Paper	Proposed	Proposed	Proposed	Proposed	100.00	CARE A1+
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (02-Jan-24) 2)CARE AAA; Stable (31-Oct-23) 3)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 (02-Jan-24) 2)CARE AAA; Stable (31-Oct-23) 3)CARE AAA; Stable (06-Jul-23)	-	-
3	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (02-Jan-24) 2)CARE AAA; Stable (31-Oct-23)	-	-
4	Commercial Paper-Commercial Paper	ST	1100.00	CARE A1+	-	1)CARE A1+	-	-

						(02-Jan-24)		

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Name of the instrument	Detailed explanation
A. Financial Covenants	
I. Net debt/EBITDA	= < 5.5x
II. Security cover	= > 2.0x

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on December 31, 2023

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
	Subsidiaries		
1	Manyata Promoters Private Limited	Full	Subsidiaries are in same line of business with significant operational and financial linkages
2	Umbel Properties Private Limited	Full	
3	Galaxy Square Private Limited	Full	
4	Quadron Business Park Private Limited	Full	
5	Qubix Business Park Private Limited	Full	
6	Oxygen Business Park Private Limited	Full	
7	Earnest Towers Private Limited	Full	
8	Vikhroli Corporate Park Private Limited	Full	
9	Indian Express Newspapers (Mumbai) Private Limited	Full	
10	Embassy Pune Techzone Private Limited	Full	
11	Vikas Telecom Private Limited	Full	
12	Sarla Infrastructure Private Limited	Full	
13	Embassy Construction Private Limited	Full	
14	Embassy-Energy Private Limited	Proportionate	
	Joint Venture		
15	Golflinks Software Park Private Limited	Proportionate	

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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