EMBASSY OFFICE PARKS REIT

July 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
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	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 program 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 37.90 million square feet (msf) spread across Bengaluru, Mumbai, Pune, the National Capital Region (NCR) and now Chennai. 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 85% as of March 31, 2024, with low lease expires 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 in 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 March 31, 2024, aided by new leases at higher rentals and sustained 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 in the medium term. However, with the planned Qualified Institutional Placement (QIP) to raise equity funds, 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 the recent acquisition of Embassy Splendid TechZone in Chennai with an enterprise value of ~₹1,185 crore, fully funded through loan, facilitating the REIT's entry in Chennai market. Although EOPR has acquired complete stake from its promoters, the revenue agreement is shared with the landowner and the REIT will receive 61% of the lease revenue share.

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 the directors in the REIT 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.

[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/EBITDA[2] of more than 5.5x

Analytical approach:

EOPR's analysis is carried out on a consolidated basis, which includes its subsidiaries and associates mentioned in Annexure 6. The consolidated approach is taken considering that EOPR has direct control over SPVs. Per the REIT Regulations, 2014, the maximum borrowing by the REIT has been defined at a consolidated level (equivalent to 49% of the value of EOPR's assets).

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 five cities, hospitality, and a captive solar plant of 100 MW capacity. As on March 31, 2024, EOPR had 45.4 msf of commercial space area, of which, 36.5 msf is completed and 85% is occupied, 6.1 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, 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.

Overall stable revenue from commercial and hospitality assets
The occupancy levels of commercial office spaces remained healthy at 85% as on March 31, 2024. Consolidated revenue stood at ₹3,685 crore and EBITDA at ₹2,770 crore for FY24, an increase nearly by 8% from FY23. This increase was supported by improved performance in hospitality segment and rental escalations in renewed leases. Currently, more than 50% of the vacant space is in SEZ and 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. Most leases expired or expiring were old leases, generating lower than 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 EOPR is well-poised to overcome such temporary phenomenon, its ability to maintain occupancy levels will be closely monitored.

Strong debt protection metrics
Gross debt increased to ₹16,808 crore as on March 31, 2024, from ₹14,805 crore as on March 31, 2023, considering asset acquisitions and capex requirement under various SPVs. EOPR's debt protection metrics, marked by net debt to GAV of 29% and net debt to EBITDA of less than 5.5x, remained comfortable. The recent acquisition of Chennai asset financed entirely through debt is expected to increase the gross debt. However, CARE Ratings believes the expected equity fund raising through QIP, majority of which will be utilised to repay external debt, will support the REIT to moderate debt metrics further. 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.

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

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 (~₹3,700 crore is pending cost to complete as on March 31, 2024), which is likely to be get funded through debt. While the execution risk will persist to complete the project on time, comfort is drawn from EOPR's successful track record in executing such projects. Timely leasing at envisaged rates will be key monitorable.

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 SPVs to the 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 4-6 months before 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. Series V Tranche A NCD amounting ₹2,000 crore has a bullet repayment in October 2024 and CP amounting ₹750 crore has a maturity in January 2025, these are expected to be met by a mix of NCD and other bank facilities. Such key events remain monitorable from a credit perspective.

Liquidity: Strong

EOPR's liquidity is strong, 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 before 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 ₹1,030 crore as on March 31, 2024.

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: On-going demand growth for commercial office spaces in India, particularly for quality assets with strong infrastructure and connectivity that align with the service sector's expansion, limit 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
Real Estate Investment Trusts (REITs)
Consolidation
Issuer Rating
Short Term Instruments

About the company and industry

Industry classification

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

EOPR (Reg. no. IN/REIT/17-18/0001) is registered as an irrevocable trust under the Indian Trust Act, 1882, and as an REIT with SEBI's REIT Regulations, 2014, as amended. EOPR is sponsored by BRE Mauritius Investments (part of the Blackstone Group) and Embassy Property Development Private Limited (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. EOPR's portfolio of assets are held through SPVs.

Brief Financials – consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	3,419	3,685
PBILDT	2,545	2,770
PAT	506	964
Overall gearing (times)	0.88	1.09
Interest coverage (times)	2.61	2.55

A: Audited; 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	Coupon Rate (%)	Maturity Date	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	Proposed	Proposed	Proposed	Proposed	350.00	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 (26-Apr-24)	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 (26-Apr-24)	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 (26-Apr-24)	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+	1)CARE A1+	-	-

					(26-Apr-24)	(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	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 March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
	Subsidiaries		
1	Indian Express News Papers (Mumbai) Private Limited	Full	Subsidiaries are in same line of business with significant operational and financial linkages
2	Quadron Business Park Private Limited	Full	
3	Qubix Business Park Private Limited	Full	
4	Earnest Towers Private Limited	Full	
5	Vikhroli Corporate Park Private Limited	Full	
6	Galaxy Square Private Limited	Full	
7	Oxygen Business Park Private Limited	Full	
8	Manyata Promoters Private Limited	Full	
9	Embassy Energy Private Limited	Full	
10	Umbel Properties Private Limited	Full	
11	Embassy Pune TechZone Private Limited	Full	
12	Vikas Telecom Private Limited	Full	
13	Sarla Infrastructure Private Limited	Full	
14	Embassy Construction Private Limited	Full	
	Joint Venture		
15	Golfinks Software Park Private Limited	Proportionate (50%)	

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-022-6837 4474 E-mail: rajashree.murkute@careedge.in Divyesh Bharat Shah Director **CARE Ratings Limited** Phone: +91-020-4000 9069 E-mail: divyesh.shah@careedge.in Amita Yadav Assistant Director **CARE Ratings Limited** Phone: +91-020-4000 9004 E-mail: amita.yadav@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in