EMBASSY OFFICE PARKS REIT

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	250.00	CARE AAA; Stable	Assigned
Non-convertible debentures	500.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	250.00	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 papers (CP) 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 38.4 million square feet (msf) across Bengaluru, Mumbai, Pune, the National Capital Region (NCR), and 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 in strong collection efficiency.

Strong occupancy of 87% as on September 30, 2024, and low lease expires over medium term provides healthy revenue visibility. With resumption of back-to-office and latest direction by the Government of India (GOI) on de-notification of Special Economic Zone (SEZ) properties, CARE Ratings Limited (CARE Ratings) expects occupancy to improve and remain strong in the medium term. CARE Ratings note 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 September 30, 2024, aided by new leases at higher rentals and sustained hotel performance after a sharp recovery post COVID. 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 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 over 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

CARE Ratings' note Embassy REIT's disclosure to the stock exchanges dated November 07, 2024 and appointment of Ritwik Bhattacharjee as an Interim CEO of Embassy Office Parks Management Services Private Limited (EOPMSPL; Manager to Embassy REIT). He last held the position of Chief Investment Officer at Embassy REIT.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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.
- Significant delay in completion and leasing of under-construction assets impacting the credit profile of EOPR.

Analytical approach: Consolidated
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 EOPR has direct control over SPVs. Per the REIT Regulations, 2014, maximum borrowing by the REIT has been defined at a consolidated level (equivalent to 49% 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 Embassy REIT
EOPR's asset portfolio consists of commercial office space across five cities, hospitality, and a captive solar plant of 100-MW capacity. As on September 30, 2024, EOPR had 51.1 msf commercial space area, of which 38.4 msf is completed and 87% is occupied, 8.0 msf under-construction space, while 4.8 msf is proposed development. The commercial space is diversified in Bengaluru, Mumbai, Pune, NCR, and Chennai. 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 ~90% of 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 of Embassy REIT
Occupancy levels of commercial office spaces remained healthy at 87% as on September 30, 2024. Consolidated revenue for Q2FY25 stood at ₹997 crore (₹889 crore for Q2FY24) and EBITDA at ₹806 crore (₹720 crore for Q2FY24), an increase of ~12% from Q2FY24. This increase was supported by improved performance in hospitality segment and rental escalations in renewed leases. Currently, over 50% vacant space is in SEZ and areas in SEZ spaces have been inherently witnessing delayed leasing, hence, EOPR is de-notifying some SEZ spaces, which is likely to enhance marketability. Latest direction by the Government of India (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 eight years provides revenue visibility for the longer term.

There has been a sharp recovery in hotel properties post COVID-19. However, EOPR's ability to maintain occupancy levels will be closely monitored.

Strong debt protection metrics of Embassy REIT
Gross debt increased to ₹20,162 crore as on September 30, 2024, from ₹18,242 crore as on June 30, 2024. However, REIT paid off Series V Tranche A non-convertible debentures (NCD) amounting ₹2,000 crore which were due for repayment in October 2024, which brought down gross debt levels to ₹18,406 crore post repayment. EOPR's debt protection metrics remained comfortable, marked by net debt to GAV of 31% and net debt to EBITDA of 5.3x as on September 30, 2024. Recent acquisition of Chennai asset financed entirely through debt; ongoing and planned capex is expected to increase gross debt. However, CARE Ratings believes the expected equity fund raising through qualified institutional placement (QIP), majority of which, will be utilised to repay external debt, will support 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 undertaken by Embassy REIT

EOPR plans to incur a capex on a consolidated basis in the near-to-medium term (~₹4,300 crore is pending cost to complete as on September 30, 2024), which is likely to be get funded through debt. While 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 a key monitorable.

High refinancing risk of Embassy REIT

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. CP has a maturity of 6-12 months, which further increases the risk of refinancing. However, risks are mitigated to an extent, given the staggered repayment structure in the medium term, availability of large pool of capital through upstream of funds from SPVs to REIT and high financial flexibility arising from low LTV, which provides ample headroom to raise additional debt or equity. REIT also has flexibility to exercise the call option, which provides opportunity to prepay debt 4-6 months 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. Series V Tranche A NCD amounting ₹2,000 crore had a bullet repayment in October 2024, which was paid by raising external debt at REIT and SPV level. The proposed NCD issue is most likely to be used to pay high cost debts including CP. CP amounting ₹750 crore has a maturity in January 2025. Timely refinancing of debts 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 lease rental discounting (LRD) loans in SPVs from banks for refinancing NCDs. Majority NCD instruments have multiple call options before final maturity, enabling them to refinance these NCDs earlier than the due date. Regulations allowing participation from pension funds, insurance companies and now foreign portfolio investments (FPIs), has provided access to larger investor base. Restrictions imposed under REIT regulations in terms of undertaking under-construction projects limit the cash outflow towards capex. At a consolidated level, EOPR had cash and cash equivalents of ₹2164 crore as on September 30, 2024 (~₹2000 crore for debt repayment due in October 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. ~96% 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, over 50% of the board comprises independent directors and there are adequate related-party safeguards.

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)
Short Term Instruments
Issuer Rating
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Realty	Realty	Real Estate Investment Trusts (REITs)

EOPR (Reg. no. IN/REIT/17-18/0001) market cap ~₹ 34,891 crore as on December 03, 2024, 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 14 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 (12m, A)	March 31, 2024 (12m, A)	September 30, 2024 (6m, UA)
Total operating income	3,419	3,685	1,932
PBILDT	2,545	2,770	1,558
PAT	506	964	1,709*
Overall gearing (times)	0.88	1.09	-
Interest coverage (times)	2.61	2.55	2.45

A: Audited UA: Unaudited; Note: these are latest available financial results.
*It includes deferred tax adjustment of ₹1,486 crores.

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 and Rating Outlook
Commercial paper-Commercial paper	INE041014023	08-Jan-2024	8.30	07-Jan-2025	750.00	CARE A1+
Commercial paper-Commercial paper	INE041014031	17-Oct-2024	7.55	14-Feb-2025	250.00	CARE A1+
Commercial paper-Commercial paper	Proposed	-	-	-	100.00	CARE A1+
Debentures-Non-convertible debentures	INE041007118	28-Aug-2023	8.10	28-Aug-2028	500.00	CARE AAA; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non-convertible debentures	Proposed	-	-	-	500.00	CARE AAA; Stable
Debentures-Non-convertible debentures	Proposed	-	-	-	250.00	CARE AAA; Stable
Debentures-Non-convertible debentures	Proposed	-	-	-	250.00	CARE AAA; Stable
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 (01-Aug-24) 2)CARE AAA; Stable (01-Jul-24) 3)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 (01-Aug-24) 2)CARE AAA; Stable	1)CARE AAA; Stable (02-Jan-24) 2)CARE AAA; Stable	-	-

					(01-Jul-24) 3)CARE AAA; Stable (26-Apr-24)	(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 (01-Aug-24) 2)CARE AAA; Stable (01-Jul-24) 3)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 (Standalone)	ST	1100.00	CARE A1+	1)CARE A1+ (01-Aug-24) 2)CARE A1+ (01-Jul-24) 3)CARE A1+ (26-Apr-24)	1)CARE A1+ (02-Jan-24)	-	-
5	Debentures-Non convertible debentures	LT	250.00	CARE AAA; Stable	1)CARE AAA; Stable (01-Aug-24)	-	-	-
6	Debentures-Non convertible debentures	LT	250.00	CARE AAA; Stable	-	-	-	-

LT: Long term; ST: Short term

Annexure-3: Covenants of rated instruments/facilities: Not applicable

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
3	Issuer rating-Issuer ratings	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
	Subsidiaries		Subsidiaries are in same line of business with significant operational and financial linkages
1	Indian Express News Papers (Mumbai) Private Limited	Full	
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	
15	ESNP Property Builders and Developers Private Limited	Full	
	Joint Venture		
16	Golflinks 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.

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About us:
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