

February 22, 2022

Embassy Office Parks REIT (Embassy Office Parks Management Services Private Limited): Rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); Reaffirmed and Withdrawn
Total	-	-	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn the ratings assigned to the Issuer Rating of Embassy Office Parks REIT (Embassy Office Parks Management Services Private Limited) based on the Withdrawal request received from the client, and in accordance with ICRA's policy on withdrawal.

The rating reaffirmation continues to derive strength from Embassy Office Parks REIT's (Embassy REIT / the company) large and diversified asset portfolio, which includes office parks and buildings, maintenance services, hotels and a solar power plant. The leasing portfolio of REIT consists of office parks and properties with leasable area of 42.6 mn sqft located in Bengaluru, Mumbai, Noida and Pune. The company had 87.0% committed occupancy as on December 31, 2021. The portfolio includes stable assets such as Embassy Manyata Business Park, Embassy TechVillage (ETV), Express Towers and Embassy GolfLinks. The tenant mix in the office portfolio is also diversified and comprises leading multi-national and domestic corporations. The rating also considers the track record of the sponsors of REIT as well as that of the REIT manager (Embassy Office Parks Management Services Private Limited).

The rating also draws comfort from low leverage of the REIT on a consolidated basis. Embassy REIT's net debt/gross asset value was 24% and net debt/EBITDA was 4.4 times as on December 31, 2021. The low leverage provides financial flexibility to Embassy REIT to fund future growth. ICRA believes that Embassy REIT's credit profile will be supported by the restrictions imposed by the REIT regulations on under construction assets and investment properties in the portfolio (not more than 20% of the value of the Embassy REIT assets) and the leverage (not more than 49% of the value of the Embassy REIT assets).

The rating also factors in the challenges such as exposure to refinancing risk associated with the NCD programmes, which will have repayments due as bullets across various tranches. Recently, in Q3FY2022, the REIT has successfully refinanced its earlier outstanding zero-coupon Series I NCDs through mix of issue of coupon-bearing NCDs at REIT level and term loan at SPV level. Moreover, the debt maturities till FY2023 are limited to only 0.3% of the debt outstanding. The rating also considers the impact of future acquisitions that may be undertaken by Embassy REIT on the leverage metrics.

The rating considers the cyclicity associated with various operational segments of REIT and the vulnerability to revenue decline in case of adverse changes to the business environment. In particular, the Covid-19 pandemic has resulted in higher adoption of flexible working arrangements. Further the subsequent waves of the pandemic in FY2022 have pushed the timelines of return-to-office. The impact of such trends on the vacancy rates and / or rent rates in the core markets where the REIT operates will be a key credit monitorable. ICRA notes that the occupancy rates in the overall portfolio of Embassy REIT has declined to 87.0% as on December 2021 from 88.9% as on March 2021 and 92.8% as on March 2020. ICRA also notes that Embassy REIT has been able to achieve high collection efficiency in last couple of years, despite the Covid-19 related lockdowns and work-from-home adoption by corporate occupiers.

The stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that the credit profile of Embassy REIT will remain stable on the back of large and stable operational portfolio, the anticipated growth from the assets currently under development, and the low leverage at the consolidated level.

Key rating drivers and their description

Credit strengths

Large and diversified asset portfolio - Embassy REIT currently has 100% shareholding in 14 SPVs and 50% shareholding in an investment SPV, through which it owns office parks, hotels and a solar power plant. The overall portfolio of Embassy REIT consists of a leasable area of 42.6 mn sqft in office parks (apart from integrated infrastructure such as hotels and solar park) located in Bengaluru, Mumbai, Noida and Pune. Embassy REIT has 4.6 mn sqft of leasable office space that is currently under development and an additional 4.4 mn sqft of area which is proposed to be developed. Embassy REIT is also developing two Hilton-branded hospitality projects in Embassy Manyata Business Park, Bangalore with a total of 619 keys as well as has a proposed development of 518 hospitality keys in ETV. The tenants in the office portfolio are leading multi-national and domestic corporations, with the top-10 tenants generating 39% of the Embassy REIT's gross annualised rentals as of December 31, 2021.

Low leverage – The leverage of REIT on a consolidated basis remains low. Embassy REIT's net debt/gross asset value was 24% and net debt/EBITDA was 4.4 times as on December 31, 2021. ICRA expects the debt/EBITDA to remain at comfortable levels even after considering the debt drawdown expected for under-development assets in the portfolio. However, leverage could increase further if large debt-funded acquisitions are undertaken by REIT.

REIT regulations impose restrictions on leverage level and under-construction portfolio, supporting financial risk profile - ICRA believes that Embassy REIT's financial risk profile will be supported by the restrictions imposed by REIT regulations on the under-construction assets and investment properties in the portfolio (not more than 20% of the value of the Embassy REIT assets) and the leverage (not more than 49% of value of the Embassy REIT assets).

Credit challenges

Exposure to refinance risk – The REITS are exposed to refinancing risk associated with the NCD programmes, which will have repayments due as bullets across various tranches. Out of the consolidated debt, 63% is in the form of non-amortizing NCDs which will require refinancing. Recently, in Q3FY2022, the REIT has successfully refinanced its earlier outstanding zero-coupon Series I NCDs through mix of issue of coupon-bearing NCDs at REIT level and term loan at SPV level. Moreover, the debt maturities till FY2023 are limited to only 0.3% of the debt outstanding.

Vulnerable to cyclical in underlying sectors and Covid-19 impact – Embassy REIT is exposed to cyclical associated with various operational segments and the vulnerability to revenue decline in case of adverse changes to the business environment. In particular, the Covid-19 pandemic has resulted in higher adoption of flexible working arrangements. The impact of such trends on the vacancy rates and / or rent rates in the core markets where the REIT operates will be a key rating monitorable. ICRA notes that the occupancy rates in the overall portfolio of Embassy REIT has declined to 87.0% as on December 2021 from 88.9% as on March 2021 and 92.8% as on March 2020. ICRA also notes that Embassy REIT has been able to achieve high collection efficiency in last couple of years, despite the Covid-19 related lockdowns and work-from-home adoption by corporate occupiers.

Possible increase in leverage levels due to future acquisitions – Embassy REIT may expand its portfolio through acquisitions. Any large-sized acquisitions can increase the leverage level significantly, in case there is no fresh equity raised for part-financing the same.

Liquidity position: Superior

The liquidity position of REIT is superior, supported by the stable net distributable cash flows from the underlying assets and the limited debt repayments over the next one year. The low leverage provides financial flexibility to avail additional debt towards the future construction and acquisition-related outflows. The Group also has sanctioned undisbursed debt available for the ongoing development projects in some of the SPVs.

Rating sensitivities

Positive Factors – Not Applicable

Negative Factors – Not captured as the rating is being withdrawn.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Policy on Withdrawal and Suspension of Credit Ratings Corporate Credit Rating Methodology Rating Methodology for Real Estate Investment Trusts Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Embassy REIT along with its subsidiaries (as mentioned in Annexure-2).

About the company

Embassy Office Parks REIT (Embassy REIT) is a SEBI-registered Real Estate Investment Trust (REIT) under the SEBI REIT Regulations, 2014, as amended from time to time. It is sponsored by BRE/Mauritius Investments (Blackstone) and EPDPL. REIT has acquired the entire shareholding in 14 SPVs and owns a mix of office parks, hotels and solar power plant. REIT has also acquired 50% shareholding in an investment entity (Golflinks Software Park Private Limited), which also owns a business park. The office parks in the proposed asset portfolio are located in Bengaluru, Mumbai, Noida and Pune

Key financial indicators (audited)

Embassy Office Parks REIT	Audited	Audited
	FY2020	FY2021
Operating Income (Rs. crore)	2,144.9	2,360.3
PAT (Rs. crore)	765.5	698.4
OPBDIT/OI (%)	77.9%	78.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.7
Total Debt/OPBDIT (times)	3.4	5.7
Interest Coverage (times)	4.4	2.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating		FY2021	FY2020	FY2019	
					Feb 22, 2022	Jul 05, 2021	Feb 02, 2021 Nov 26, 2020	Mar 30, 2020	Mar 05, 2019	Jan 22, 2019 Sep 24, 2018
1	Issuer Rating	Long-Term	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Proposed NCD	Long-Term	-	-	-	-	-	Provisional [ICRA]AAA (Stable), withdrawn	Provisional [ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]AAA (Stable); Withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis (as on December 31, 2021)

Company name	Ownership	Consolidation approach
Embassy Pune TechZone Private Limited	100.00%	Full Consolidation
Manyata Promoters Private Limited	100.00%	Full Consolidation
Umbel Properties Private Limited	100.00%	Full Consolidation
Embassy Energy Private Limited ¹	100.00%	Full Consolidation
Galaxy Square Private Limited	100.00%	Full Consolidation
Quadron Business Park Private Limited	100.00%	Full Consolidation
Qubix Business Park Private Limited	100.00%	Full Consolidation
Oxygen Business Park Private Limited	100.00%	Full Consolidation
Earnest Towers Private Limited	100.00%	Full Consolidation
Vikhroli Corporate Park Private Limited	100.00%	Full Consolidation
Indian Express Newspapers (Mumbai) Private Limited	100.00%	Full Consolidation
Vikas Telecom Private Limited ²	100.00%	Full Consolidation
Sarla Infrastructure Private Limited	100.00%	Full Consolidation
Embassy Office Ventures Private Limited	100.00%	Full Consolidation
Golflinks Software Park Private Limited ³	50.00%	Limited Consolidation

Source: Company

¹ Embassy REIT holds 19.99% interest in Embassy Energy Private Limited with the balance 80.01% of ownership interest held by Manyata Promoters Private Limited (which is a 100% subsidiary of Embassy REIT). Thus, Embassy REIT directly or indirectly owns 100% interest in Embassy Energy Private Limited.

² Embassy REIT holds 40.00% shareholding in Vikas Telecom Private Limited with the balance 60.00% of ownership interest held by Embassy Office Ventures Private Limited (which is a 100% subsidiary of Embassy REIT). Therefore, Embassy REIT directly or indirectly owns 100% interest in Vikas Telecom Private Limited.

³ Manyata Promoters Private Limited (which is a 100% subsidiary of Embassy REIT) holds 50% shareholding in Golflinks Software Park Private Limited. Thus, Embassy REIT indirectly holds 50% interest in Golflinks Software Park Private Limited. The balance shareholding of 50% is held by Kelachandra Holdings LLP.

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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