



August 01, 2023

To,  
The Corporate Relations Department,  
The National Stock Exchange of India Limited,  
Exchange Plaza, 5<sup>th</sup> Floor,  
Plot No. C/1, G-Block, Bandra-Kurla Complex,  
Bandra (East), Mumbai – 400051.

To,  
The Corporate Relations Department,  
Department of Corporate Services,  
BSE Limited,  
25<sup>th</sup> Floor, Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai – 400001.

**Re: Script Symbol “EMBASSY”, Scrip Code 542602 and Scrip Code 959990, 960165, 960421, 973434, 973545, 973546, 973910 and 974885 (NCDs).**

Dear Sir/ Madam,

**Subject: Transcript of the Earnings Conference Call for quarter ended June 30, 2023.**

In continuation to our letter dated Thursday, July 27, 2023, regarding the link to access the audio recordings of the Earnings Conference Call held on Wednesday, July 26, 2023, at 1800 Hrs IST to discuss Embassy REIT’s financial results for the quarter ended June 30, 2023, please see enclosed the transcript of the aforesaid Earnings Conference Call.

The transcript referred to above has been uploaded on our website and can be accessed through the link as set out below:

[https://eopwebsvr.blob.core.windows.net/media/filer\\_public/ac/8e/ac8ea5a4-84b1-4619-b39e-7eab1b36696f/embassy\\_reit\\_earnings\\_call\\_q1\\_fy24\\_transcript\\_with\\_qa.pdf](https://eopwebsvr.blob.core.windows.net/media/filer_public/ac/8e/ac8ea5a4-84b1-4619-b39e-7eab1b36696f/embassy_reit_earnings_call_q1_fy24_transcript_with_qa.pdf)

Thanking you,

For and on behalf of **Embassy Office Parks REIT** acting through its Manager, **Embassy Office Parks Management Services Private Limited**

**Vinitha Menon**  
**Company Secretary and Compliance Officer**  
**A25036**

**Encl:** As above



Embassy REIT  
Q1 FY2024 Earnings Call  
July 26, 2023



## **CORPORATE PARTICIPANTS**

Aravind Maiya – Chief Executive Officer (CEO)

Abhishek Agrawal –Chief Financial Officer (CFO)

Ritwik Bhattacharjee – Chief Investment Officer (CIO)

Sakshi Garg – Investor Relations Manager

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good evening everyone. A very warm welcome to all for Embassy REIT's first quarter FY2024 Earnings Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions at the end of the presentation during the question-and-answer session. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference – Ms. Sakshi Garg, Investor Relations Manager for Embassy REIT. Mam, you may begin.

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### Sakshi Garg

Investor Relations Manager

Thank you. Welcome to the first quarter FY2024 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter ended June 30, 2023 a short while back. As is our standard practice, we have placed our financial statements, earnings presentation discussing our performance, and a supplemental financial and operating databook in the Investors section of our website at [www.embassyofficeparks.com](http://www.embassyofficeparks.com).

As always, we would like to inform you that management may make certain comments on this call that one could deem forward-looking statements. Please be advised that the REIT's actual results may differ from these statements. Embassy REIT does not guarantee these statements or results and is not obliged to update them at any time. Specifically, any financial guidance and proforma information that we will provide on this call are management estimates, based on certain assumptions and have not been subjected to any audit, review, or examination procedures. You are cautioned not to place undue reliance on such information and there can be no assurance that we will be able to achieve the same.

Joining me today are Aravind Maiya, our CEO, Abhishek Agrawal, our CFO and Ritwik Bhattacharjee, our CIO. We will start off with brief remarks on our business and financial performance and then open the floor to questions.

Over to you, Aravind.

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## Aravind Maiya

Chief Executive Officer (CEO)

Thank you, Sakshi.

Good evening and thank you all for joining us to discuss our Q1 results.

To start with key highlights for the quarter, we leased a total of 1.1 msf, delivered a NOI growth of 9% YoY and announced distributions of ₹5.38 per unit. In addition, based on our Q1 performance, our existing healthy pipeline and considering a clearer interest rate outlook, we have provided guidance for the full year FY2024, which Abhishek will take you through shortly.

### On the macro front

India has emerged as the fastest growing large economy in the world and its stature continues to grow as a real alternative to China. Along with this, moderating inflation levels and a pause in policy rate hikes has improved the general business and market sentiment as well as reinforced the growth stance of the government. The same positivity is also reflecting in the Indian CRE market, where demand remains strong for premium office spaces. This is in stark contrast to many developed office markets and is largely supported by two factors:

- First, the growth of Global Captive centers ('GCCs') in India is currently driving the new demand. By leveraging the Indian skilled talent and the associated cost arbitrage, these global companies continue to set up and expand their offshoring centers in India. As per recent industry reports, 115 such centers are expected to be set up every year in this decade, employing 2.6 million additional headcount. This will be a key driver for the new office space requirement of over 450 msf expected over the next 10 years. Also, moving up the value chain, these GCCs are emerging as centers of excellence and innovation, and are driving product development in multiple areas such as AI, cloud, engineering and data analytics.
- Second, the physical office attendance continues to improve in Indian office markets as compared to the West, where remote working is still quite prevalent. Even in our properties, back to office numbers are rising steadily. It is also encouraging to see the recent commentary from multiple industry leaders regarding their updated back-to-office strategies and their continued focus on getting their employees back to the offices.

### With this backdrop, let me move to our portfolio and start with our leasing performance for Q1

- We leased 1.1 msf across 22 deals, including 407k sf of new leases at 68% re-leasing spreads. We also pre-committed 448k sf in our under-development projects at a premium to market rents and renewed 209k sf leases at 15% renewal spreads.
- The leasing demand was primarily driven by GCCs, contributing to over 71% of our total leasing. In terms of sectors, besides technology occupiers, BFSI, consulting, engineering and manufacturing firms led the demand.
- We also noted a strong trend of expansionary demand, with over 80% of the new or pre-leasing by our existing occupiers. Also, deviating a bit from the last quarter's trend, couple of large-sized deals got signed in Q1.
- Embassy Manyata contributed 61% of the total leasing this quarter and its occupancy touched 91%. This asset has been going through a positive churn in terms of occupier mix and we have been able to increase its in-place rentals by around 20% in the last 18 months. So, now our two largest markets, Bangalore and Mumbai, are at greater than 90% occupancy levels.
- Factoring 702k sf of exits during the quarter, primarily from IT services occupiers, our Q1 occupancy stood at 85% for the overall portfolio and 87% on a same-store basis. Of the 5.1 msf current vacancy, around 67% is concentrated in Pune and Noida, significantly smaller markets for us. Hence, on a value basis, this Pune and Noida vacancy translates to only 5% of our portfolio value.
- Looking forward, we have a promising leasing pipeline of 2 msf for our operational portfolio as well as our under-development projects.

### On the SEZ front

We are still awaiting regulatory clarity on the SEZ bill amendments, and we continue to be hopeful for a resolution soon. In the meanwhile, we continue to work on what is under our control.

- We leased 0.5 msf of SEZ space this quarter to existing SEZ occupiers looking to expand.
- We are in the final stages of de-notifying our existing 0.4 msf D3 building in Embassy Manyata. We have already leased 41% of this building at 210% re-leasing spreads. With a pipeline of another 225k sf, we are hopeful to fully lease this building by the end of the year. This is a perfect example of the strategy that we continue to follow to de-notify any completely vacant SEZ buildings, where leases get expired or where we are able to relocate existing occupiers. We have identified another such building in Manyata, totaling 0.8 msf, which we will look to de-notify within this financial year.
- With this, our current SEZ vacancy stood at 15% or 3 msf, seeing an improvement from the last quarter. Also, the non-SEZ vacancy for our portfolio is 10%, excluding the new buildings in Pune delivered last year. This non-SEZ space has good traction, and we are confident to lease up the same.

### Moving to our development portfolio

- Our development pipeline, totaling 7.9 msf, is a key organic growth lever for us over the next 3-4 years. With a total committed capex of ₹4,000 crores, these projects are expected to add approximately ₹900 crores annual NOI upon stabilization, resulting in very attractive yields.
- Three projects, totaling 2.1 msf, are due for delivery this year, across Bangalore and Noida. Of this, the 1 msf M3 Block A in Embassy Manyata is awaiting occupancy certificate, which is expected by next month. This block is already 45% pre-committed with a healthy pipeline for the balance. In addition, 0.4 msf of Embassy Business Hub is on track for delivery next quarter and is almost fully pre-leased.
- Overall, over 90% of our total development projects are in Bangalore, which continues to lead India's office absorption. Around one-fourth of the total developments are already pre-committed to leading global companies, and we are building a strong pipeline for the remainder.
- In terms of key upgrades, we have completed the refurbishment of 0.2 msf Block K at Embassy Manyata. Around 72% of this block has already been leased at 215% re-leasing spreads. For the remainder, we have a healthy pipeline of over 100k sf, and we expect to fully lease this building by the end of this year.

### Lastly, on our hotels

- The strong rebound in our hospitality business continued with a 53% occupancy, a 30% YoY ADR growth and an EBITDA of ₹40 crores in Q1.

We are extremely proud to see our unitholder register crossing 85k, as compared to 4k at the time of our listing and around 47k at the same time last year. We particularly welcome the expansion of domestic institutional and retail investors in our book. Also, to build the understanding and awareness of the REIT product, we have undertaken multiple education initiatives for retail investors across India and we are happy to see increasing recognition of the long-term potential of the product.

Finally, I am pleased to announce the elevation of Abhishek Agrawal as the CFO of Embassy REIT. Abhishek was designated as the Interim CFO of the REIT in May 2022 and is known to all of you. I wish him great success in his elevated role and with that, over to Abhishek for our financial updates.

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## Abhishek Agrawal

Chief Financial Officer (CFO)

Thanks, Aravind. Good evening everyone. Let me take you through the financial updates for the quarter.

- **Revenue from Operations** grew by 10% YoY to ₹914 crores. This was mainly driven by new lease-up at attractive re-leasing spreads, contracted rent escalations, and a ramp-up in our hotel business. This was partially offset by the impact of exits in our office portfolio.
- **Net Operating Income ('NOI')** grew by 9% YoY to ₹738 crores, in line with the increase in our Revenue from Operations. Our office NOI margins stood at 85%, demonstrating our scale and efficiency.
- **Net Distributable Cash Flows ('NDCF')** grew by 1% YoY to ₹510 crores. The YoY increase in our NOI contributed positively to our distributions, which was primarily offset by an increase in interest costs as well as other working capital changes. Further, we have declared Q1 distributions of ₹510 crores or ₹5.38 per unit, making this our 17<sup>th</sup> quarter of 100% distribution payout.

### Moving to our balance sheet updates

- Our balance sheet remains best-in-class with a 7.3% in-place debt cost and dual AAA/Stable credit ratings. We remain focused on active capital management and interest cost optimization. In the last two months, we have successfully raised two Non-Convertible Debentures ('NCDs') totaling ₹2,075 crores at an average rate of 7.8% to partly refinance bank loans which were due for repricing. In this refinancing, we achieved a 120 bps spread over G-Sec, our lowest ever. We also secured 146 bps proforma savings, as compared to the expected rate on repricing of these loans.
- Of our debt book totaling ₹15,350 crores, ₹4,100 crores of NCDs are due for refinancing in the latter half of this financial year. Considering the continued pause in interest rate hikes by the RBI as well as the rates achieved on our recent debt raise, we are confident of refinancing these at industry-leading rates. We will also look to raise debt across different tenures to continue staggering our debt maturities.

### Lastly, I will update on the outlook for the remainder of FY2024

Given that more clarity has emerged on our leasing pipeline as well as on the trajectory of market interest rates, we are providing guidance for the full year FY2024. We expect our NOI to be in the range of ₹2,924 to ₹3,136 crores and our distributions to be in the range of ₹20.5 to ₹22 per unit. Our outlook is based on the following key assumptions for the full year:

- Considering the market outlook and our pipeline, we have assumed a total lease-up of 6 msf. This comprises of 4 msf of new lease-up, including new building deliveries planned in FY2024, 0.7 msf of renewals and 1.3 msf of pre-commitments. With this, we expect our same-store occupancy to end up marginally higher YoY.
- We expect to achieve contracted rent escalations of 14% on 6.7 msf leases during the year.
- We expect continued improvement in our hotel business, both in terms of occupancy and ADRs and have factored in a 60% YoY increase in our hotel EBITDA.
- Finally, we have assumed our overall interest costs for the year to increase by 15-18% YoY. Two-thirds of this increase is expected to be due to the overall increase in rates and the remaining one-third due to the additional interest cost related to our new deliveries.

Also, while we do not want to give any specifics beyond FY2024, we believe that this year will likely represent the bottom of what has been an eventful first 5-year cycle for Embassy REIT. The key drivers for this will be:

- First, we expect leasing demand to pick up given how optimally positioned India is, both from talent availability and cost arbitrage perspectives.
- Additionally, the new supply that we are developing in Bangalore will provide further impetus to our leasing, particularly from GCCs.
- Lastly, we also expect the rate cycle to moderate and have a positive impact on our cost of funding.

All of these factors should contribute to the start of a period of secular growth for Embassy REIT.

With this, let's now move to Q&A please.

## QUESTION & ANSWERS SESSION

*(Note: The Q&A has been edited for clarity)*

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Tayal from Bank of America. Please go ahead.
- Kunal Tayal:** I have two, three questions if I could ask them in one go. The first one was around the swell in your pipeline. I am assuming that a lot of this comes from GCC given the comments you just had. So, wondering if even for the pipeline the observation is similar that bulk of it is coming from existing companies that already have GCC operations and they are planning to expand, or do you think this is coming from new companies wanting to set up shop in India? That's the first question.
- My second one was – any additional color on whether IT services contribution is bottoming out for the business? I think last quarter you mentioned that it's down to about 15% of the portfolio.
- And then the last one is on the delta between NOI growth and distributions. So interest expense is one component of it, but there ought to be some other factors as well. Wondering if it is working capital and what exactly is contributing to this increase in working capital versus earlier?
- Aravind Maiya:** Thank you, Kunal. So, let me take the first one and then hand it over to Abhishek in relation to the NOI to NDCF walk. So, firstly, in relation to pipeline, it's a combination of a couple of things. One, as we mentioned, the pipeline is significantly coming from GCCs, and it's a combination of existing GCCs who are looking to expand, some of them expanding quite significantly and some of them marginal, as well as a few new guys who have entered India. So, it's a combination of both, which is there in the 2 million square feet of pipeline.
- Secondly, in relation to IT services, the numbers are largely similar. 15% is now down to 14% because we did have one big exit. But in terms of the overall way we are seeing going forward, it might be a good statement to make that it's probably bottoming out, for the simple reason that while overall business is down, if you look at it from a real estate point of view, the message which is coming from almost all leaders is very clear, that they want people back in office. That's number one.
- Number two, we were picking up a data point from a recent research report, which said that the last three years of hiring, only 27% of that have got converted to leased space, which basically means as people come back, they will definitely need more space. But having said that, probably, the expansion of space might take a little bit more time for the business to stabilize, but in terms of downside, it might be a good statement to make that it is bottoming out.
- So, these are the two quick responses to the first two questions. With that, why don't I hand it over to Abhishek for the third one?
- Abhishek Agrawal:** So, Kunal, you rightly picked up. For the delta, there are two major components. One is the interest as you predict. The second one is the non-cash NOI. Why this will come is because the 6 million square feet leases that we will do, on that then there will be a gap between the LCD (Lease Commencement Date) and the RCD (Rent Commencement Date) because of which there will be non-cash revenue which will come during the current year and there will be slight portion of this working capital, which is normal in the business which have some timing gap in collection.
- Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** My first question is just on your tenant IBM, the share of space from IBM has gone up again. Can you talk a bit more about what kind of space they are taking as they were



cost conscious customers earlier?

**Aravind Maiya:** Puneet, in terms of new take-ups, in the quarter, there are none. The percentage change might just be a change in composition of the other tenants.

**Puneet Gulati:** Yes, because their share has gone up from 6.5 to 6.7. That's the reason for my question.

**Aravind Maiya:** Yes. So, it's because of the change in composition of the other top tenants. If I can give some perspective in terms of the way ahead, from a return to office point of view, based on discussions, they have been pretty clear while they had increased complete work from home, they have changed it. There is significant return back to office. So, overall, from a business, while have seen some offshoots, I would say it's still early.

**Puneet Gulati:** Second, on your leasing while Manyata seems to be improving a bit, there hasn't been any material improvement in leasing for Quadron which I thought is non-SEZ and should lease out well. And similarly, if you can comment a bit more on what's happening on Galaxy and Oxygen as well?

**Aravind Maiya:** Sure. In terms of Quadron, it's a SEZ space, Puneet. That's one factual change and just from a lease-up point of view, considering all the infrastructure, which is happening in and around the space, largely the Metro, there is a bit of situation in terms of traffic etc. So, from a medium to long-term perspective, we are pretty confident of that park. We have already done the necessary upgrades. So, that's on Quadron.

In terms of Galaxy, we did have one large IT services tenant exiting this quarter. That's the reason why you see occupancy dipping, but this is a non-SEZ space and there is a good amount of traction on this asset and a large part of the pipeline which is there is also coming from this asset. So, we are pretty confident of leasing up this space.

**Puneet Gulati:** And Oxygen?

**Aravind Maiya:** So, Oxygen is a SEZ space and from an overall demand perspective, is still sluggish. This, I would say, is an asset which we categorize similar to Quadron, where we will have to wait for some overall infrastructure upgrades to be done, including the new airport. But just to give you a different perspective, if I were to take both Pune and Noida assets together and take the vacant space of these two assets, put together, they are only 5% of the overall value. Just to sum it up, these two assets will take some time for the lease-up to improve.

**Puneet Gulati:** My last one is on the refurbishment cost. So, there seems to be a lot of refurbishment that you are doing. How would those refurbishment costs be treated from a distribution perspective and also from a leasing perspective?

**Aravind Maiya:** So, the refurbishments are largely funded by debt, which has typically been our strategy around all Capex. These refurbishments, at least in the case of Manyata which we have done, have provided us with significant returns because you would have seen that in both D and K blocks, we have been able to get re-leasing spreads in excess of 200%.

**Puneet Gulati:** What kind of refurbishment expense should one run with for next three quarters?

**Aravind Maiya:** So, the way to look at it is, based on historical evidence, these refurbishments can range from ₹1,000 to ₹1,500 per sf, depending on the age of the asset and what are the upgrades which are required. So, other than the two which we have already disclosed, I did mention in my remarks that we have another building where we have another IT services tenant which is expected to vacate later in the year, which is part of our expiries. So, that's one full block in Manyata and we would be taking up refurbishing that building similar to D and K and we expect similar results in terms of the re-leasing spread on that building.

**Moderator:** Thank you. The next question is from the line of Murtuza Arsiwala from Kotak Investment. Please go ahead.

**Murtuza Arsiwala:** Couple of questions. One is, typically, how much time is it taking for you to de-notify?

You know, you have had some sort of building-wise denotification. So, how much time is the entire process taking? That's question number one.

Question number two is on the hotels business, generally, when we look at other hotel companies out there, they are showing pretty robust numbers in terms of occupancy. Your room rates obviously have increased, but is there anything that's holding back on the occupancy?

And the third is a more generic one on the common area maintenance or the facilities management business. Typically, what are the kind of margins that you are making?

**Aravind Maiya:**

Thank you, Murtuza. Time for denotification, we have discussed this in the past, but let me take Bangalore as the right example because it is where we will be undertaking more denotifications in the time to come. What our experience was in the recent D3 building, well, let's say it's two weeks away, it's taken us about five months to de-notify that space, end to end. There are a few little bits of learnings which we have taken from this denotification which will compress this time a bit. So, overall, I would say, four to five months is what we need to de-notify buildings in Bangalore.

In Pune, the Hudson and Ganges which we de-notified took much more time because the process was more difficult. If you were to replicate that in Pune, probably we could again learn from that experience and reduce the 12 months to, you know, it will be difficult for me to give an exact time frame, but definitely we can look at some reduction even in Pune.

Noida is one area as we have mentioned, it has taken us a lot of time on the overall construction as well we have gone a little slow considering the demand. So, we will undertake that denotification as and when the building is coming up closer to completion. So, that's on the denotification.

In terms of hotels, the two Hiltons in Embassy GolfLinks and Manyata are doing phenomenally well. GolfLinks is upwards of 60%, which is in similar range as compared to the peer hotels, but the ADRs are much higher.

Similarly, Embassy Manyata, it's around 54% occupied. In the most recent month, it has crossed 60% as well. So, when you look at it from our perspective, the occupancy is still not significantly up because some IT services tenants are still there. So, we believe that this will pick up significantly in the next few months.

The only hotel which kind of brings the average down for us is the Four Seasons. That is one focus area for us as we look into the year ahead. We are working closely with our operator, which is Four Seasons, to look at more initiatives in relation to marketing as well as corporate tie-ups, but this is a space to watch out for specifically for asset management.

Lastly, on CAM, Abhishek, do you want to take it?

**Abhishek Agrawal:** So, Murtuza, we have a 20% mark up to all the cost that we spend on CAM.

**Moderator:**

Thank you. Next question is from the line of Vishal Parekh from Kotak Investment. Please go ahead.

**Vishal Parekh:**

So, on the refurbishment cost, I had one query. So, that new block which you have put for refurbishment, approximately ₹1,250 per square feet seems to be the cost which you have indicated in the Capex schedule. So, does that include denotification cost as well because I think that particular building is SEZ and occupied by one client which is expected to vacate?

**Aravind Maiya:**

Vishal, it doesn't include the denotification cost because that's a number which could vary depending on how the assessment goes with the local state authority. So, we have not factored in that cost.

**Vishal Parekh:**

Understood. And on the statement of maintaining a similar occupancy going ahead,

considering that the particular tenant is going out and you all will have to de-notify that particular tower, so would you still be able to maintain similar occupancy, basis the pipeline which you have in Manyata?

**Aravind Maiya:** So, the way to look at it, Vishal, is this tenant is expected to exit in the next quarter. Of course, there would be some time gap by the time we fill up the space. So, on a quarterly basis, you could see this number going down, but when we end the year, we are pretty confident that, on an overall portfolio as well as for Manyata, we will be marginally higher, including same store. We should be marginally higher than what we are as of June.

**Moderator:** Thank you. The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

**Pritesh Sheth:** Just one question to clarify. So, out of the 1.3 million square feet that's expected to expire in Embassy Manyata this year, 0.8 million square feet is the refurbishment tower. Is that correct? And any sort of negotiations that are happening for the rest of the 0.5 million square feet, if you can highlight that?

**Aravind Maiya:** In terms of 0.8, you are absolutely right. That's part of the 1.3 msf. Regarding the balance, without getting into the specifics of Manyata, we have indicated the overall renewal number for the full year. Of the balance expiries, we expect 0.5 million square feet to be renewed and logically, the balance should be most likely exits.

**Pritesh Sheth:** Sure. And just in terms of refurbishment, I think you answered in a way in the previous question. How much time does it take for you to refurbish the tower and then re-lease it based on your experience in D3?

**Aravind Maiya:** So, the D3 and K have taken similar time of around nine months. If you look at it, K block is around 70% leased by the time the building was refurbished, D3 is around 40%+ re-leased, with both these assets having significant pipelines. So, you could say another three to four months, or six months max, for it to be back to fully leased.

**Pritesh Sheth:** And regarding this floor by floor denotification. Given where your portfolio stands, especially Embassy Manyata where we are looking to, you know, de-notify whole towers, will this floor by floor denotification help you in your other assets? I am not sure, you know, if there is any scope for doing that in other assets.

**Aravind Maiya:** There definitely is scope for doing floor by floor in other assets and in Manyata. So, we will still be having vacancies across our parks, which are not necessarily full buildings and we will not necessarily be able to relocate some of the tenants to make it fully vacant. So, 100% the floor by floor denotification is going to benefit us significantly across all our parks.

**Pritesh Sheth:** And if you can just help me with your current SEZ vacant space? I am not sure if I have missed that if you mentioned earlier.

**Aravind Maiya:** The current SEZ vacancy is around 14% for the entire portfolio.

**Moderator:** Thank you. The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

**Pradyumna C:** So, the exits during the quarter at 0.7 million square feet seems to be quite high compared to the renewals of 0.2 million square feet. So, what could explain this? You spoke about IT services being weak during the quarter, but generally, why the renewals have been quite low? And are we seeing enough demand from other segments to make up for these exits, because the occupancy seems to have slightly fallen in the quarter?

**Aravind Maiya:** Of the 0.7 million square feet exits, we had a large occupier in excess of 0.5 million square feet which exited in our Galaxy park in Noida, for various reasons. As I mentioned, this is an asset which is in Sector 62 of Noida where we are seeing a significant amount of demand. So, we are pretty confident of leasing up this space. If you look at the balance expiry for the year, I did cover one large potential exit which is

coming up in Manyata. Again, a similar story, IT services. So, overall, this is the reason, Pradyumna, for the exit what you have seen.

But at the same time, if you see the new lease up which is happening as well as the new lease up which is projected and what you are seeing in the overall market, it's a significant shift from IT services to GCCs. From our portfolio point of view, 55%+ are now GCCs. In the first quarter lease up, 70%+ is GCCs and that's evident in all the research reports you are seeing in terms of how it is not just back-office work which is coming to India, but it's value-added work and as per the recent NASSCOM report, GCCs are now becoming the transformation hubs for their home centers, whichever country they are in.

So, overall it's a shift in the occupier base for the entire industry. Bangalore, of course, is benefiting the most from the GCCs. 34% of the overall head count of GCCs is located in Bangalore. 50% of the new GCCs set up last year were in Bangalore. So, when you take all of this together, the shift is working out very well for us because again, these guys are not very cost conscious. They don't mind paying the best rent for the best assets which we own.

**Pradyumna C:** And so, what would explain the fall in occupancy considering the demand still is quite strong for the Grade-A offices? So, why has there been a fall in occupancy? And are we seeing any kind of slowdown in any other segment apart from IT?

**Aravind Maiya:** Yes, Pradyumna, what you will continue to see for the later part of this year is there will always be a gap, from an occupier leaving to a new tenant coming. So, that will always be there. Number one.

Number two is, in terms of GCCs, till last quarter, you would have seen that the general average lease up would have been in the range of 50 to 100,000 sf, but you have seen two large deals which have happened this quarter. Having said that, any large deal, even from a GCC point of view, does take a little bit more time for the sign offs to come from global offices, including the global CEO, CFO might have to approve. So, the decision taking might end up being a bit slower than what we want, causing this temporary gap in our occupancy.

**Pradyumna C:** And any other segments which are witnessing some sort of a slowdown apart from IT?

**Aravind Maiya:** Not necessarily, Pradyumna, nothing to highlight.

**Moderator:** Thank you. The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

**Kunal Lakhan:** My first question to you, is there any update on the Chennai ROFO asset, like where we are in terms of due diligence?

**Ritwik B:** Thanks for the question, Kunal. The capital markets right now aren't necessarily conducive for us to pursue an acquisition, on the scale of where Chennai is. So, we have put that process effectively on pause. I think that's no different from where you see anybody with sort of a high cost of capital at this point in time in the market, considering where the interest rate is and where stock prices are trading. As you know, we are dependent on that to actually fund an acquisition. While we have spent a lot of time on the asset and we think it's a fabulous asset, it's just difficult to think about providing value to shareholders and doing it on an accretive basis. So, we have put the process on hold, and we continue to be on the lookout to see if there is an opportunity to move forward, but at this point in time, that's been put on pause.

**Kunal Lakhan:** My second question is on the guidance. When I look at your NOI and DPU guidance, the guidance of ₹29 billion of NOI on the lower end is actually higher than what you did last year. But on the DPU side, the lower end is at about ₹20.5, which is significantly lower than last year's ₹21.7. So, what are you estimating here, because NOI growth is not transmitting down to DPU?

**Abhishek Agrawal:** Kunal, if you look at the NOI growth, what will happen is because of the 6 million square feet that we are assuming, the NOI is growing. However, there will be a drag from the interest cost which we are estimating to increase by 15% to 18% over the previous year cost.

Second is, there will be non-cash NOI because of the difference between the dates of LCD and RCD. Some of this NOI will be non-cash for this year and a slight working capital change. So, because of this, though NOI is growing, the DPU is not growing now.

**Aravind Maiya:** So, Kunal, a lot of this lease up which has happened this year will translate to full cash revenues ideally next year. So, you would see a significant bump up in the cash distributions in the next year because of the current year's lease up. Versus this year, you will have the non-cash gap.

**Kunal Lakhan:** Just on the debt, when we look at our expiries, a substantial portion of our debt expiry over '24, '25 is essentially fixed rate debt at about less than 6.5% and the current re-pricing is, like you said earlier, it's about 7.8%. So, what I am trying to understand is that if the interest cost increases, would it settle down in FY24 or it will just again carry forward in FY25 also?

**Abhishek Agrawal:** So, Kunal, the ₹4,100 crores of NCD which is coming up for re-pricing in the latter half of this year will definitely increase the interest cost and this is what we are saying when we are saying two-thirds of the total increase in interest cost of the current year will come from increase in the interest rates, one-third will come from the interest cost now hitting our P&L because of the new deliveries that we will do during the current year.

**Ritwik B:** Kunal, let me just add to this. I think we look at distributions quite pragmatically. At the end of the day, what happens for us is that we have always faced the mildly elevated sort of interest rate environment, in which I think we have done really well, given the fact that we have traded our debt effectively in the mid 7s with the balance sheet that we have, which I think is quite remarkable given all the volatility that we faced, whether it's a pandemic, whether it's inflationary environment. Rates globally for REITs backed up to almost like 2x or 3x to what they have been paying, we backed up probably like 100 basis points.

Now the reality is that that is contributing to sort of a slight drag on the distribution system. It is what it is. The refi of the ₹4100 crores of ETV vintage debt that we did at 6.5%, that's coming up, we are pretty confident of getting that done competitively, but it will be elevated. I just want to be clear about that. But the moment this rate cycle pauses, we think that hopefully these will be the last couple of hikes. In that environment, that's what we meant by secular growth. The moment that the rate cycle moderates, I think you are going to see a drop off both in rates and hopefully as you sort of lease up, that this entire assumption that we have taken on comes to fruition, that should hopefully lead to a new distribution cycle. We have always been very concerned about management of our balance sheet. We don't ever want to take on more than we can chew, whether it's on development or the acquisition pipeline, our governance is sacrosanct, our credit ratings are sacrosanct.

Kunal, the point I was just trying to make, I'll just reiterate that very quickly is that we think that we will get this refi done fairly competitively. It's more elevated than what we originally did that at. CY24 should be a better year from a rate perspective and that should flow into distributions.

**Moderator:** Thank you. The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

**Mohit Agarwal:** Couple of questions. Firstly, on the SEZ demand. So, while we understand that it's weak because we are awaiting an SEZ amendment, but just trying to understand how it has been for the last few quarters? So, if you could give some color on with in the gross leasing that we have been reporting, how much has been the SEZ leasing? And how

has it been across various markets, let's say, Bangalore, Pune, Noida? So, that's the first question.

**Aravind Maiya:** When you look at Q1, the overall SEZ lease up was around 45% of the total lease up that we have done and if I look at the market stats for Bangalore, I think it's a similar number, Mohit. Unfortunately, I don't have it handy as to what the SEZ demand was in other markets, but there is one interesting stat which I want to give out over here which is, when you look at our 16 million square feet of existing SEZ occupiers, close to 50% of those are GCCs. So, what you could infer from that is, as some of these GCCs expand who are already existing and have set up SEZ space and have some runway ahead of them in terms of the tax holiday period, there is a high chance that they will continue to take space in SEZ and that's largely what you have seen in the current quarter for us in terms of the M3 lease up.

**Mohit Agarwal:** So, even if the much-awaited amendment gets delayed to let's say next year, after elections or something like that, even in that case, probably, we will continue to see the occupancy in the SEZ portion ramp up, is that understanding correct?

**Aravind Maiya:** Yes, I think there is still SEZ demand in Bangalore because, as I mentioned, when you correlate some of this fact with the growth in GCCs, and some of them are existing GCCs, as they are growing, we are seeing some of this take up happening. That probably couldn't be the same for some of our other markets like Pune, Noida because these are ITES markets, specifically the micro markets where we are located. So, need not necessarily be the same story for some of the other markets, where floor by floor denotification would be important.

**Mohit Agarwal:** And secondly, you mentioned in your opening remarks that the physical occupancy is improving. So, could you give some color on where the portfolio is and between GCCs and non-GCCs how has that share changed?

**Aravind Maiya:** I think this is a number which you could dissect in multiple ways, but a trend to look at, Mohit, is on an overall portfolio basis, the BTO is ranging from 52% to 54%, but when you look at the physical occupancy for some of our largest GCCs, it ranges from 75% to 80% versus some of the IT, ITES players are still hovering around 25% to 40%. So, it's a mix of all these which culminate into this 52% to 54% which is there on an average basis. But as GCCs grow, and as the ITES guys are calling more and more people back, this number on a blended basis should also go up for us.

**Mohit Agarwal:** Thank you. The next question is from the line of Chetan Shah from Kotak Securities. Please go ahead.

**Chetan Shah:** So, one of my questions already got asked and answered. The second question which I wanted to ask was on Embassy Galaxy where you mentioned that there is a large tenant who has vacated this quarter. I understand the in-place rental was low and you now mentioned that there is a strong pipeline to refill that. What are the rents you are targeting for this opportunity?

**Aravind Maiya:** To keep it short, Chetan, we are looking at MTM spreads ranging from 30% to 40% to the in-place rental of that tenant.

**Chetan Shah:** And time you are expecting to close by this quarter?

**Aravind Maiya:** From the overall guidance perspective and assumptions that we have factored, we believe a significant portion of this should be leased up during the course of the year.

**Chetan Shah:** So, when you mentioned 30% to 40% over your existing in-place rent which was there earlier, so that comes to lower than the market rent today. Is that the right estimate?

**Aravind Maiya:** So, what will happen, Chetan, is if there is a small lease up, it will be similar to the market rent. If there is a large anchor tenant coming, it could of course be at some small discount to the market rate.

- Moderator:** Thank you. The next question is from the line of Satinder Singh Bedi from Eon Infotech. Please go ahead.
- Satinder S Bedi:** Thanks for the opportunity and congratulations on a stable set of numbers and must commend your disclosures which are truly world class, I feel in line with what we get, let's say, in Singapore or in US. So, one question to Aravind. Aravind, what are the top three concerns that you have as a CEO that bother you today?
- Aravind Maiya:** Satinder, I think let me keep it simple instead of answering it as top three concerns, honestly, it's only one concern, which is a simple short-term goal for us is to increase the occupancy. The way I look at it, our business model is very simple. I am able to increase the occupancy, our cash flows go up, distributions go up, which logically should take the price up, which will enable us to grow inorganically as well because we are going to use equity as well as debt to grow.
- So, on an overall basis, we are looking at increasing the lease up. So, the simple short-term focus is to increase the lease up, increase distributions. Of course, we do have the organic 7.9 million square feet which we are developing over and above the existing vacant area which we can lease up which will add to the organic growth story. So, that's the way we are looking at or I am looking at it, Satinder, to just focus on increasing the overall occupancy.
- Satinder S Bedi:** The last quarter you said that the absence of large deal enquiries is a concern. So, has the momentum shifted on that over the last three months or is it still the same as it was a quarter ago?
- Aravind Maiya:** Satinder, you have seen that we have done two reasonably large deals this quarter. There are some significant RFPs in the market which we have participated in, and these are large deals. Having said that, it is certain that these guys need to take up the space, but while because of the size of these deals, when they do go to their home country for approval, it takes them more time because the situation in the respective home country is much different than what it is in India. So, deal making still takes a bit more time than what it used to take, let's say, a few years back, but slowly we are seeing traction, the way you have seen some of the lease up in our Q1.
- Satinder S Bedi:** So, this is a significant part of pre-lease commitments. Just wanted to understand what does it take in terms of pre-lease commitment? How much is the future tenants' skin in the game? Is it six months of security deposit or what kind of commitment does he have?
- Aravind Maiya:** You are talking about security deposits?
- Satinder S Bedi:** So, a significant part of your leasing is pre-lease commitments. These pre-lease commitments obviously are forward commitments, but it's a commitment made today. So, we wanted to understand what is the nature of this commitment? What kind of a commitment that we put up upfront? Is it just a contract or is it a security commitment?
- Aravind Maiya:** Yes. So, typically what happens is, they enter into letter of intents, and they do place some amount of security deposits. That's typically how the pre-lease commitments work.
- Satinder S Bedi:** And one final question for Abhishek. This EGL distribution, can you just help us understand how this worked out, this ₹567 million? So, from EGL, we get two lines of revenue. One is the dividend which we understand is the profit as a 50% owner of the EGL asset and second is distribution from Embassy GolfLinks. So, how is ₹567 million arrived at for this quarter?
- Abhishek Agrawal:** Satinder, the total receipt that we have from EGL is ₹80 crores for this quarter which basically includes dividend of ₹23 crores. The next two part is, if you remember, we had actually invested in their NCDs for acquisition of some buildings. So, the second is interest on that debt and the balance ₹40 crores is the return of this debt which is amort of debt component. So, the total is ₹80 crores.
- Satinder S Bedi:** So, the NCDs is ₹567 million?

- Abhishek Agrawal:** Yes. Dividend is ₹23 crores which is not there in this ₹567 million.
- Satinder S Bedi:** So, that's ₹233.
- Abhishek Agrawal:** Yes, balance ₹567 million is basically interest and ₹40 crores of amort of debt.
- Moderator:** Thank you. The next question is from the line of Abhishek Khanna from Kotak Institutional Equities. Please go ahead.
- Abhishek Khanna:** I had two clarifications. Of the 60-40 breakup in your total SEZ vs non-SEZ area, is the breakup of your vacant area also the same, 60-40? That is the first one.
- Second, I just wanted to clarify, when you say you leased out 0.5 million square feet of SEZ area in the current quarter, is it all to the tenants who were already occupying that area? I mean, these are all existing SEZ tenants. Is that how it works? Because I assume nobody would be as a tenant taking up new SEZ space. Is that understanding correct?
- Aravind Maiya:** Yes, that's correct. It's an expansion of existing guys. So, the answer to the second question is it is existing guys.
- Abhishek Khanna:** All 0.5 million square feet, right?
- Aravind Maiya:** Yes. Going back to your first question, I think it's a similar percentage around 60-40.
- Abhishek Khanna:** So, it's 85% vacancy essentially for both SEZ and non-SEZ areas, broadly.
- Aravind Maiya:** Yes, it's a small marginal difference, 85 and 86. 85% is the SEZ occupancy. 86% is non-SEZ occupancy.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. On behalf of Embassy REIT, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.