Embassy REIT

4Q FY2020 Earnings Call

May 19, 2020

CORPORATE PARTICIPANTS

Michael Holland - Chief Executive Officer (CEO), Embassy REIT

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for the Embassy REIT's fourth quarter FY2020 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 - Mr. Ritwik Bhattacharjee, Head - Investor Relations for Embassy REIT. Sir, you may begin.

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Ritwik Bhattacharjee

Head – Investor Relations, Embassy REIT

Thank you, operator. Welcome to the fourth quarter FY2020 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the Quarter ended March 31, 2020 a short while back. As is our standard practice, we have placed the audited financial statements, an earnings presentation discussing our quarterly and full year performance, and a supplemental financial and operating databook on our Website at http://ir.embassyofficeparks.com under the Investor Relations section.

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. In particular, there are significant risks and uncertainties related to the scope, severity and duration of the COVID-19 pandemic, the actions taken to contain and mitigate the pandemic and the direct and indirect economic effects of the pandemic and containment measures on Embassy REIT and on our occupiers.

Joining me on the call today are Michael Holland, the CEO, Vikaash Khdloya, the Deputy CEO and COO, and Aravind Maiya, our CFO. Mike will start off with the fourth quarter and full year highlights, business overview and strategy followed by Vikaash and Aravind. We will then open the floor to questions.

Over to you, Mike.

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Michael Holland

Chief Executive Officer (CEO), Embassy REIT

Thank you, Ritwik.

Good evening and thank you for joining today's call. These are challenging times across the world and wherever you are, we sincerely hope that you, your family and colleagues are healthy and safe.

Today we announced our fourth quarter and full year FY2020 results – in a world which is exhibiting unprecedented uncertainty, we are pleased to report a great outcome for FY2020, a Q4 distribution of Rs.5,317 million, that's a total distribution for FY2020 of Rs.18,821 million, ahead of our revised guidance last quarter, and an NOI growth of 15% YOY, all demonstrating the resilience of our business despite COVID related disruptions in March 2020.

Our core business proposition of predictable, low volatility cash flows and quarterly distributions has delivered in FY2020 what we said at the beginning of the year - a record 2.4 msf new leases, 15% YOY growth in NOI, early delivery and healthy pre-commitments on our 1.4 msf on-campus development, culminating in the strong distributions for our Unitholders.

Notwithstanding this strong set of results for FY2020, our full focus now is on our business today and the year ahead given the difficult external environment which has enveloped global and Indian markets since the COVID outbreak.

In India, COVID-19 started to emerge as a potentially significant business disruptor in late February. We entered this crisis in a position of great strength, the result of a number of years of prudent and proactive management of the business. Our strong balance sheet, ample liquidity, the long term lease contracts with our 160+ corporate office occupiers, the strong relationships and trust we have built with them over the years and our first class on-ground operations teams across the country all contribute to the resilience of our platform, and surely that resilience will be required over the coming year.

Since the outbreak and subsequent lock-down by government, our focus has been to facilitate business continuity for our occupiers operating critical services from our parks and ensuring the health, safety, and well-being of all our stakeholders. Our parks remained open for business to support core business functions of our occupiers throughout the national lockdown within the parameters laid out by the Central Government and the multiple States in which we operate. The many accolades from our occupiers reflect the hard work and unwavering commitment of our on-ground teams. We acknowledge and sincerely thank all of our front-line employees and service providers for their efforts to date.

We are in very early stages of this global business disruption and there is a great deal of uncertainty, many views and speculative comments about potential impact of issues such as social distancing, work from home, workplace de-densification, business travel reductions, liquidity squeeze, and so on. In addition, we're still operating in a restricted environment even today, and it is difficult to estimate with a reasonable level of certainty as to how long the current challenges will persist. However, amid this uncertainty, we have a positive view on a number of areas:

Firstly, it is clear that a significant reduction in the densities of the workplace is coming, given increased priority to employee wellness, and this will drive demand. Some of this de-densification, but certainly not all, will be offset by more flexible workstyles including work from home. The work from home experiment in India has delivered in this crisis but my recent interactions with many corporate occupiers leads us to a preliminary assessment that while the industry may see more flexibility in employee workstyles, the total business environment which Embassy REIT provides to its occupiers and their employees cannot, in India, be fully replaced by solitary work from home changes. One business leader from a global corporation explained to me that, for his people, a young demographic of digital/tech experts serving cloud, cyber security and data needs of western corporations, the "office is their home".

Our conclusion is that workspaces will, more than ever, be the venue for building company culture, collaboration, training and teamwork. The workplace for the young Indian workforce provides a social, professional and community space as well as the necessary infrastructure and productive environment which is so often lacking at home. We are not alone in our view that we will see demand shifting to higher quality, lower density workspaces in the coming years. This aligns well with our overall product offering and strategy – the total business ecosystem.

Secondly, it is clear that a sector which is shining in the COVID-19 world is technology – as a facilitator of new lifestyles – and, as we have highlighted in the past, our existing portfolio continues to be around 50% technology occupier focused. We have a positive bias to India's leading tech city, Bangalore, further enhancing the resilience of our business in times such as today. We underline our previously articulated message – we have a bias to the right sector, the right product, and the right markets in India.

A third point of certainty, is that our business is focused on delivering best-in-class office premises and amenities to the best corporations globally and in India, that we entered this phase with record office demand and low vacancies, and we foresee a dramatic tightening of new supply. Our core customer base operates here in India because this remains the global hub for technology talent. This, and the fact that India continues to have a significant employee cost advantage and affordable rentals, has not changed. In fact, again, technology has become even more important to the functioning of the global economy and consequently, many technology companies are prospering in this environment.

Over the coming months, as we start to emerge from this pandemic, we will see how these things play out. Over the medium-term though, we do believe that this phase will result in continued consolidation in the Indian office market, considerable reduction in annual supply and a higher market share for high-quality institutional landlords in India such as Embassy REIT.

Before I handover to Vikaash to discuss our business and operating performance, I would like to announce that, earlier today, our Board accepted the resignation of Rajesh Kaimal, the CFO to the REIT Manager since Aug 2018. Rajesh is moving to take on the Group CFO position at Embassy Group and our Board also approved the appointment of Aravind Maiya as CFO to the REIT Manager with immediate effect. Aravind has deep knowledge of finance, is fully familiar with the REIT business and well suited to lead given that he has been operating as Deputy CFO since May 2019. We are very grateful to Rajesh for his leadership and guidance in our first year post listing and we wish him great success in his new role. Combined with our existing management and today's announcement of the new Chief Financial Officer, Embassy REIT continues to have an experienced, world class leadership team.

Vikaash will now discuss in detail our business and operating performance.

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Vikaash Khdloya

Dy CEO and Chief Operations Officer (COO), Embassy REIT

Thanks, Mike. Good evening, everybody.

Business highlights for the fourth quarter of FY2020 include:

- Business continuity of our occupiers and safety of their employees, with our parks open for business throughout the national lockdown;
- 389k sf of new lease-up during the fourth quarter with a forward lease pipeline/ LOIs totaling c.300k sf;
- Occupancy certificate for the 1.4 msf new on-campus deliveries, 62% of these new completions already committed to occupiers;
- Overall occupancy of 92.8% on 26.2 msf operating office portfolio, with same-store occupancy of 94.5% considering March'2019 as base year; and
- Robust rent collections of 92% for April as of date.

So, lets dive into the details. I will first cover updates on each of our key focus areas of business continuity, leasing, new development and asset management initiatives, including an update on our hotels, and later will discuss business outlook for FY2021, both on demand as well as supply side.

Ensuring Business Continuity during COVID-19

Our response to COVID-19 focused on our immediate priorities of ensuring safety and well-being of all employees – our vendors, our occupiers and our own team, and delivering on the business continuity commitments to our occupiers. In early March, when social distancing and Government regulations started to impact day to day operations in our properties, we activated our detailed business continuity plan on 4th March, much ahead of the Government's lock-down announcement, and this BCP has been reviewed on a daily basis since then. All our properties continued to be operational throughout lockdown and our teams have done an excellent job for our 160+ occupiers to provide for their business continuity needs in the face of the pandemic and related Government guidelines and restrictions.

The pillars of our response have been around four key themes - people, medical, communication, and at the heart, excellence in operational response. We provided daily pan-India and property-specific updates to over 1000 occupier touchpoints besides creating a 24x7 centralized helpdesk to address occupier needs. Our largest properties in Bangalore recently moved to a less restrictive regime wherein 33% of employee staff were permitted to operate from 4th May and our properties in Noida and Pune are likely to follow a similar regime in the coming weeks. Yesterday, we estimate that around 12,000 people from 120+ companies worked in our parks, primarily in Bangalore. Mumbai, however, currently remains on enhanced social distancing measures. We have formulated a plan and a taskforce to prepare our buildings for re-occupancy post lockdown.

We are proud of our people and the dedication they've shown through this difficult period. Feedback from our occupiers on our response has been very positive. Our sense is that large occupiers are going to focus on how we did things differently during this challenging time and that will only continue to build our reputation and deepen our relationship with them - and the trend and focus towards better managed, safer properties will work to our benefit as concern for employee safety for the best corporate occupiers will, quite rightly, always trump cost.

Next, we had a record year of Leasing

We entered the fourth quarter with a healthy pipeline in excess of 500k sf. Despite COVID-19 business disruptions and resulting decision making delays, we closed the quarter with 389k sf of new leases across all our locations. For the full year FY2020, we achieved our highest absorption in previous 5 years, with c.2.4 msf new leases signed with over 25 occupiers, 53% re-leasing spreads on 1.1 msf of re-leases and 19% renewal spreads on 600k sf of renewals during the year.

These are impressive numbers and once again demonstrate the continuing appeal of our total business ecosystem product as well as the embedded demand from within our portfolio. Our robust leasing has helped us achieve strong business performance in the previous fiscal and has kept pace with the growth of our portfolio. We started the year with an occupancy of 94.3% on 24.8 msf operating office portfolio and closed at 92.8% on 26.2 msf. On a same-store basis, our occupancy increased during the year to 94.5%. We have a forward lease pipeline / LOIs totaling c.300k sf & of our 1.4 msf lease expiries in the next 12 months, corresponding to 6% of our overall rents, c.0.4 msf or 32% are currently in advanced discussions and our immediate priority is to convert these. However, it is clear that leasing decisions will be deferred over the next few months while corporate occupiers figure out their long-term strategy. While it is unclear how long this pause will last, we continue to stay fully engaged with occupiers.

Moving to our on-campus development projects

During the fourth quarter, we received occupancy certificates for the 1.4 msf new on-campus deliveries in Embassy Manyata NXT and Embassy Oxygen. With a further 232k sf lease-up in NXT building in Q4 FY2020, 62% of the 1.4 msf new completions are now committed. Although occupiers had initiated fit-out work before the lock-down announcement, we do expect lock-down and subsequent disruptions to impact rent commencements on these pre-commitments, potentially by 1-2 quarters.

During the fourth quarter, we halted construction activity on 2.6 msf new development in accordance with government lockdown directives. Given supply chain disruptions and labour migration challenges, delivery timeline is likely to be impacted by 1-2 quarters. We will resume construction as soon as lockdown restrictions are eased in respective locations and our projects team is fully geared up to implement new social distancing and other wellness procedures at each of the sites to ensure safety and health of all our workers.

We do not have any near-term new supply in our portfolio over the next 2+ years, and hence we plan to continue with the 2.6 msf early-stage development projects within existing office campuses with delivery timelines starting only 2023 onwards. As we move forward, we will continue to monitor market dynamics prior to committing any additional new development and we have flexibility to control our supply timing over the medium term.

Let me touch on our asset management initiatives which are core to our business philosophy

...with updates on our rent collections, lease management, our operating hotels and other planned capex projects.

- Over the last three months, we have worked extensively with our occupiers in providing business continuity and minimizing their hardships through active dialogue. This in turn has helped us to limit COVID-19's impact and manage risks around income loss – we have collected substantially all of March rent and 92% of April rent as of today with commitments from occupiers that would bring April collections to 95% by the end of this month. A number of our ancillary amenity and small business tenants and certain of our office occupiers have requested rent waivers and/or rent deferrals for April 2020 and beyond. We have consistently maintained that our office occupiers are required to comply with their lease obligations and pay rents. However, we have considered modest rent waivers for our food court, retail and small business tenants, whose contribution to overall revenue is negligible.
- Moving to the impact of COVID-19 on our existing leases and our lease management strategy for the coming year. Our top 10 occupiers comprise very strong global names and they contribute a significant 42% of our total revenues. Our detailed risk assessment shows that sectors directly impacted from the pandemic such as co-working, hospitality, aviation, and retail together constitute only 6% of our rentals. Further, on the back of successful contractual escalations on 5.5 msf in previous fiscal FY2020, we have an additional 7.1 msf fully contracted escalations ranging between 12-15% which come up in next twelve months and whose rents are currently 33% below market. These escalations will be a key driver of NOI growth in current year and as of today we do not see material risk in these escalations.

- Our two operating hotels, Hilton at Embassy Golflinks and Four Seasons were initially projected to account for approximately 2% of NOI in FY2020. Our Hilton hotel has been a consistent high performer given the on-campus nature of the offering. Four Seasons, which opened last year, and which witnessed slow ramp-up initially, was gaining good ground in Q4, reaching 36% occupancy and break-even for the month of Jan'20. However, since Feb'20, occupancy has been severely impacted at both hotels due to the pandemic induced business travel restrictions and we suspended operations in Mar'20. We are currently working closely with both hotel operators and have instituted several cash conservation measures. We will resume hotel operations once the lockdown restrictions ease. Though hospitality demand globally and in India is likely to be severely impacted in short to medium term, its effect on our overall business will be limited given hotels contribute a very small proportion of our NOI and asset base.

- Regular investment in our properties by undertaking select infrastructure and upgrade projects is core to our asset management strategy and helps us increase entry barriers. While we continue to be judicious in our discretionary capital spends, we will continue to pursue select projects which fit our long-term value creation plan, and which help in our total business ecosystem offering to occupiers. We are positive on the long-term complementary benefit that our hotels offer and hence we continue to work on our 619 keys dual branded Hilton hotels at Embassy Manyata. Construction activity on the hotels was halted given the lock-down disruption and delivery is likely to be impacted by 1-2 quarters with completion now estimated in June'22.

- Given the external turbulence and our priority to focus on COVID-19 response, we have paused our assessment of the Embassy TechVillage ROFO opportunity and will revisit that in due course. Our top priority remains our existing business.

Moving to our business outlook for FY2021

2019 was a year of record absorption for India office market and vacancies were also at record lows at year end. In the post COVID world, consultants are projecting net absorption down 28-33% for this year with occupiers likely to defer decision-marking on new leasing while they focus on delivering business continuity to their dislocated workforce. The actual absorption recovery timeline remains uncertain.

However, we do believe that global technology spends will continue to grow, especially in digital, cloud, data services and cyber security to support new lifestyles. Further, increased cost pressures on global businesses may increase offshoring to the benefit of India office demand in the mid-term as was the case post global financial crisis in 2009.

Global companies will increasingly prefer the best properties, with high levels of compliance and service, and landlords with strong financial and operational qualities. Occupiers are likely to have an increased focus on wellness and enhancement of safety protocols for property management, which we believe will drive demand to our high-quality portfolio.

On the supply side, there has been considerable supply shrinkage in last quarter with consultants reporting 35-40% YOY drop. This trend will continue, and supply is expected to drop significantly in the mid-term due to supply chain disruptions, labor relocation challenges and liquidity pressures. While consultants estimate 25% drop in the announced supply over the next 2 years, actual competing and comparable supply for REIT properties may be even lower. This will further consolidate demand for institutional quality projects with healthy financing and project completion predictability to our benefit.

As we move ahead into FY2021 implementing our business plans, we are now focused on execution excellence in a period of high uncertainty. Given the potential impact of COVID-19 on businesses globally is unclear and evolving, we continue to proactively manage our portfolio to mitigate its impact and emerge even stronger. We believe that our total business ecosystem leaves us at the top of the pyramid in competing for occupiers, that our focus on operational excellence and long-term approach to value creation will continue to make us the landlord of choice in India.

Over to Aravind now for the financial updates.

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Aravind Maiya

Chief Financial Officer (CFO), Embassy REIT

Thanks, Vikaash. Good evening, everybody. I will be covering three areas with you today – firstly, our Q4 FY2020 performance along with a round-up of our full year FY2020 performance, secondly, a brief discussion on our balance sheet strength including access to liquidity and lastly, broad outlook for FY2021.

To start with, despite the daunting challenges arising from the fallout of the global pandemic, Embassy REIT has once again delivered a resilient financial performance for Q4 and for full year FY2020. Financial highlights include:

- Our Net Operating Income for 4Q FY2020 grew year-on-year by 10% to Rs.4,618 million, and cumulatively grew year-on-year by 15% for FY2020;
- Our Distribution for 4Q 2020 stood at Rs.5,317 million or Rs.6.89 per unit, representing 100% payout ratio for fourth quarter and full year cumulative distribution totaled Rs.18,821 million or Rs 24.39 per unit representing 99.8% payout ratio for FY2020; and
- Our balance sheet remained strong with ample liquidity and low leverage. Existing cash and undrawn committed facilities comprised Rs.13.5 billion and our leverage remained low at 15% Net Debt to TEV with only 1.3% debt maturing in next two years.

Our results once again highlight our highly efficient model as flow through of Net Operating Income to Distribution was approximately c.104% for full year. Further, we delivered full year distributions of Rs.24.39 per unit representing 98.5% of our initial target before the start of FY2020 and exceeding the higher end of the revised guidance range of 96.5% to 97% provided during our third quarter earnings call despite COVID-19 related challenges in Mar'20.

Earnings Performance

I will now discuss in detail our fourth quarter earnings performance including a round up on our full year results for FY2020.

Revenue from Operations for the fourth quarter grew by Rs.423 million or 8% YOY, and by Rs. 2,679 million or 14% for full year FY2020 mainly on account of our strong leasing momentum as well as contracted rental escalations of our office leases.

Net Operating Income for the fourth quarter grew by Rs.418 million or 10% YOY and by Rs.2,428 million or 15% for full year FY2020 mainly due to increase in our Revenue from Operations as well as reduction in operating expenses due to successful implementation of certain cost-saving initiatives at our Embassy Manyata property. In terms of our NOI drivers, contracted rental escalations, new lease-up and mark-to-market re-leases contributed to over 95% of the YoY NOI increase.

Our **Operating Margins** once again reflect the benefits of our scale, our operational efficiencies and our cost optimization efforts - both our NOI and EBITDA margins stood healthy at 85% and 82% for the full year FY2020. As you will note, we have been able to achieve impressive YOY c.100 bps margin improvements in both our NOI and EBITDA, reiterating our overall commitment to maximize Unitholder distributions and value across everything we do. Consequently, EBITDA for full year also grew by Rs.2,510 million or 17% YOY.

I would like to highlight that our **NDCF** for the fourth quarter at the REIT level stood at Rs. 5,314 million despite the recent COVID-19 outbreak. The Board of Directors of the Manager to the Embassy REIT in their meeting held earlier today declared a fourth quarter distribution totaling Rs.5,317 million or Rs.6.89 per unit, representing a distribution payout ratio of 100% for Q4 FY2020. We are committed to delivering on our quarterly distributions and our balance sheet and access to liquidity gives us the confidence to do so. For the full year FY2020, Embassy REIT has now cumulatively declared distributions totaling Rs.18,821 million or Rs.24.39 per unit with an overall annual payout ratio of 99.8% and annual distribution yield of 8.13% based on the unit listing price. The record date for Q4 FY2020 distribution is May 28, 2020 and the distribution will be paid on or before June 3, 2020.

Strong Balance Sheet with Low Leverage

Moving to our balance sheet updates, let me highlight our disciplined approach, our conservative balance sheet and how our low leverage of 15% Net Debt to TEV places us in a strong position to weather external uncertainties in the near-term due to COVID-19 disruptions and pursue accretive growth initiatives as we move forward and drive our business priorities.

To summarize our balance sheet strength:

- We continue to maintain a strong liquidity position with Rs.13.5 billion of total liquidity as of 31 March 2020 consisting of Rs.9.5 billion of cash and treasury balances as well as Rs.4 billion in undrawn committed facilities. With only 1.3% of our existing debt maturing over the next two years, we have no significant debt maturities until Q1 FY2023. Also, our underlying covenant of high-quality creditworthy occupiers is reflected in our rent collections for Apr'20 which continue to be robust as Vikaash mentioned earlier. All of these provide ample liquidity for our business continuity despite broader liquidity squeeze in the market.
- During full year FY2020, we remained active in the debt market and raised Rs.22 billion debt and refinanced Rs.30 billion. We are one of the most well capitalized companies in the real estate sector in India. Our net debt of Rs.47.9 billion represents very low leverage of 15% of our total enterprise value and provides us additional proforma debt headroom of Rs.114 billion.
- Further, as of May'20, credit rating agencies CRISIL and ICRA once again reaffirmed our AAA/Stable credit rating in respect of our listed bond and REIT issuer ratings respectively. Our net debt to EBITDA of 2.7x and our interest coverage ratio of 4.0x further reflect our conservative leverage position.

Other Updates

I will now briefly cover few updates relating to our annual valuations, recent DDT rollback, our cost saving initiatives etc.:

- Our independent valuers undertook a detailed property valuation exercise as of March 31, 2020 and assessed the Gross Asset Value of the portfolio at Rs.331.7 billion with over 92% of REIT's value from our core commercial office segment. We recognized an impairment loss of Rs.1,776 million in our hospitality business mainly due to slower than anticipated occupancy ramp-up at our Four Seasons hotel in Bangalore coupled with uncertain economic conditions due to COVID-19 induced business and travel disruptions. Factoring the above, our Net Asset Value as at March 31, 2020 stood flat at Rs.374.64 per unit compared to our previous NAV of September 30, 2019, underpinning our asset quality.
- Moving to DDT, as you may recollect, earlier in February 2020, the Government of India's 2020 Union Budget had proposed to impose a tax on dividends distributed to REIT investors. This has now been rolled back by the government after numerous representations by industry stakeholders, subject to the condition that REIT SPVs will not opt for the alternate tax regime of lower corporate tax rates. We view the recent DDT rollback as a long-term positive for REITs and it makes the REIT product appealing to both foreign and domestic investors.
- Further, in line with our earlier commitment to simplify our holding structure and optimize distributions for Embassy REIT, the Board earlier today approved a scheme of arrangement which enables collapsing of the legacy two-tier holding structure of Embassy Manyata SPV into a single level, subject to necessary regulatory approvals. We expect the overall process to be completed in the next 4-5 quarters.

Outlook for FY2021

Moving to my last section on financial update relating to our outlook for FY2021. As Mike and Vikaash previously mentioned, given the unprecedented degree of economic uncertainty due to COVID-19 disruptions, the full impact to global businesses and economies caused by the pandemic cannot be currently ascertained. Although our office rent collections were strong in Apr'20, it is difficult at this stage to estimate possible outcome for FY2021 with any reasonable degree of certainty. Hence, we believe it is prudent to defer guidance for the fiscal year FY2021.

However, I will summarize few of the commentary provided by Mike and Vikaash earlier in respect of each of our business components which may have a bearing on our FY2021 NOI and distributions:

- Our rent yielding commercial office segment contributed over 91% of our full year FY2020 NOI and gross asset value. This segment remains relatively resilient given underlying covenant of our 160+ creditworthy corporate occupiers. However, c.6% of our occupiers are from directly impacted sectors such as aviation, hospitality, retail, and co-working.
- We have an additional 7.1 msf fully contracted escalations ranging between 12-15% which come up in next twelve months and whose rents are currently 33% below market.
- In addition to our 1.9 msf current vacancy, we have 1.4 msf upcoming expiries and renewals during FY2021. Of these, as of date, we are in advanced lease discussions for c.650k sf.
- Additionally, rent commencement from our 62% pre-committed area on the recent 1.4 msf completions is likely to be delayed by 1-2 quarters due to disruptions for our occupiers undertaking fit-out work and also due to deferred take-up on expansion spaces by these occupiers.
- Our hospitality segment contributed 0.6% of our full year FY2020 NOI and 5% of our gross asset value as of 31 March, 2020. Operations on both our operating hotels are currently suspended and the Hospitality demand is likely to be severely impacted in the short to medium term. Consequently, contribution to NOI from this segment is likely to be impacted due to slow anticipated occupancy ramp-up and fixed operating costs.
- On our expense side, we achieved significant efficiencies and cost optimization in FY2020. We are now fully focused on cash conservation and collections optimization as we move forward in the current year and we may incur additional operations and maintenance costs in current fiscal FY2021 given enhanced safety and wellness initiatives and expectations from occupiers.

With the above information, we have provided you the building blocks which will assist you to come up with an estimate of our earnings in FY2021.

Over to Mike for his concluding remarks

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Michael Holland

Chief Executive Officer (CEO), Embassy REIT

Thanks, Aravind.

So, another solid quarter and the completion of our first full year post listing delivering to all stakeholders through our total return and predictable business.

We have delivered on our distributions for FY2020 and delivered on a full year total return of circa 25% exceeding full year FY2020 returns of US and Singapore REIT indices as well as the domestic Nifty Realty Index.

We are now focusing on FY2021 and managing business priorities through a period of uncertainty with an unknown time horizon. You've heard how we've entered this in great shape and that our key focus areas for the coming quarters and into FY2021 include:

- Continuing our deep occupier connect and unparalleled customer service;
- Maintaining high occupancy levels at our properties and being the landlord of choice;
- Delivering our ongoing on-campus new developments;
- Focusing on robust fiscal management – collections, cost savings and minimizing discretionary capital expenditure; and
- Continuing our hands-on and active asset management, including a focus on our two operating hotels and the few occupiers from COVID-impacted sectors.

We remain committed to our business strategy to deliver total return through regular and predictable quarterly distributions supplemented by growing NOI through multiple accretive growth initiatives. In the short-term, the pandemic will certainly slow the growth velocity of our business in FY2021. While Embassy REIT will not be immune to the dramatic disruptions in global and domestic economic activity, the business is in great shape and well positioned to weather this period of uncertainty.

We have highlighted in the past that our portfolio of high-quality assets, our long lease terms with strong credit occupiers, our balance sheet and capital structure have always been real strengths – in today's uncertain environment, these really come into play and give us a strong foundation for a challenging year ahead in FY2021 positioning us to continue to gain market share and stretch our leadership as the market continues to consolidate towards fewer, more resilient, institutionalized landlords.

So that's the business overview for FY2020 – let's move to Q&A please:

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QUESTION & ANSWERS SESSION

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Mike, I had two questions. First, while I understand you cannot give a guidance on revenue given the uncertainty, but is it fair to assume that the REIT would maintain the 99% to 100% payout to the unit holders at least by FY2021 or do you plan to hold some cash should there be need for it in terms of some client-related issues? The second question is, you mentioned 92% collection has already happened in April and it will touch 95% in a few weeks' time. Just wanted to know, what is the regular collection pattern? Is it also a similar thing that you collect 95%- 96% in the current month and the remaining spills over to the next month? And a related part to it is that the 6% what you mentioned as the impacted sector because of COVID, do you foresee any immediate risk of bankruptcies or vacancies from those clients and what are the protections you have in terms of deposits should those happen?

Michael Holland: Abhishek, thank you. There are three key questions there. I am going to pass across the collections question in a second to Aravind and the 6% impacted sectors to Vikaash. In terms of the percentage on distribution, we are obliged under the REIT regulations to distribute 90% of our net distributable cash flows. We will comply with that. We have always said that we will endeavor to maximize on that number. And I don't think anything has changed on that. But to stipulate what exactly is that number, I think we won't do that at the moment. And Aravind, can I ask you to comment on the collections of 92%?

Aravind Maiya: Sure, Mike. In comparison to the 92% collection what we have for April 2020, typically, we would collect closer to 100% by the end of the month. Also, if I can just take on the first question a little bit more, adding on to what Mike said. Abhishek, I think what gives us the confidence to give out distributions is the access to liquidity which we have, which I did mention in my prepared speech, of the current cash balance as well as the undrawn committed facility of Rs.13.5 billion. I just wanted to add on that point before I hand over to Vikaash.

Vikaash Khdloya: Thanks, Aravind. Hi, Abhishek. On your question on the impacted sectors and what is the plan on that. So, if I could refer you to slide 18 of our presentation, we mentioned that approximately 6% of the rentals, as we stand today, are from occupiers from directly impacted sectors. Of course, now today we are still in the middle of it and we will have to wait and watch how this pans out. But we are working very closely with these occupiers, adopting a proactive and nimble approach to assist them during this pandemic. We are closely watching how their businesses shape up and the solutions, quite frankly, will depend case to case. Won't be appropriate for us to comment on any specific tenant's business here, but we do have robust risk management processes, including the security deposits that you mentioned. And we continue to actively manage our leases as and when we do determine that there are certain businesses which will be disrupted by this pandemic. So, we will have to work through the details, see how it pans out and take it from there.

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

Mohit Agarwal: A couple of questions. Firstly, you mentioned that the April rentals recovery has been 92%. Just a clarification, that pertains only to facility rentals or includes the maintenance CAM recoveries also? That's the first question. Secondly, could you give a sense on how the month of May is shaping up in terms of collections? And one more, you mentioned about the consolidation within the commercial space. Now, I understand that you have said that the ROFO that we were considering has been put on hold, but how would you overall approach these acquisitions in case of any distress deals that come your way, given the strong balance sheet that we have? And how do you look at the valuations and cap rates, considering that there is a lot of distress in the market?

Aravind Maiya: Okay. I will take the first part of the question. So, in relation to the 92% which you mentioned, that includes both facility as well as the common area maintenance income which we bill. And in relation to your second part on May collections, looks healthy as of now. As of today, we have collected about 75% of our May billings. I will now hand it over to Vikaash for the second part of the question.

Vikaash Khdloya: Thanks. So, in relation to acquisitions, in general, our view remains the same. REIT is a vehicle well-suited for accretive inorganic growth. Especially, given our disciplined balance sheet, we are keen to look for opportunities that are accretive and irreplaceable trophy assets which are dominant in the respective micro-markets. And this is the key criteria. As of date, on timing, I guess it is too early. We are currently focused on our existing business. We are right now staying in the market on the opportunities. But we do believe that as market moves past the pandemic-induced tensions, in a quarter or two, acquisitions will also become a priority as balance sheet issues and liquidity squeeze provide some interesting opportunities. In terms of valuation and cap rates, I guess we will have to work through the details basis each of the specific opportunities. But, we do think that the liquidity squeeze will dry up the market for potential sellers who would have limited choices and that would be beneficial in terms of just having dominant irreplaceable assets, which is really the key focus area. And then we will work through the pricing.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Just a couple of questions from my side. You have some amount of area which is up for re-leasing in the current year as well. Now, my understanding would be that you typically plan ahead of the expiry, so can you give us some color on where that discussion is? Or do you see rate, so how much is that rate in terms of the amount which is up for re-leasing? And similarly, on the construction, some color on how much time we could have lost or revised timelines on the construction part? I am sorry if I missed it if you had already said it previously.

Vikaash Khdloya: So, I will just quickly take the second part of your question first. In terms of the construction, we did have to halt construction on the three projects of 2.6 million square feet in March. We do expect a delay of one to two quarters. We are waiting and seeing how the regulations and the notification from the lockdown 4.0 pan out. But we do think that both supply chain disruptions as well as labour migration will be challenging. The existing deliveries will be impacted by one to two quarters. However, we are sufficiently well-funded and have plans to continue with these developments, because in any case, they come up for delivery in 2023. And with supply squeezing dramatically, we think it would be an opportunity.

Now coming to your question on expiries, I would say that's a great question. And if I can guide you to slide number 31 of our investor and earnings presentation. So, we have upcoming expires and renewals of approximately 1.4 million square feet in our portfolio in the next 12 months, roughly representing 5.5% of the rents. As of today, as we discussed earlier during the scripted remarks, we are in advanced discussions for 400,000 square feet, which is approximately 32% of the rents that are expiring in the coming year. I just want to highlight here that the entire 1.4 million square feet does not come up in one go, and it comes up over a period of time during the next 12 months. Having said that, and the fact that we have secured 32% in terms of advanced discussions, we do think that the demand pick up will be slow for the next two to three quarters. And, we do think that the backfill and the re-leasing maybe subdued for the next two-three quarters as occupiers focus on their existing businesses rather than new capex. We will have to wait and watch how it pans out. And we will be working through this with our on-ground teams.

Murtuza Arsiwalla: Vikaash, if I could just put a follow-up. Even for the assets which have been commissioned recently, how much of it has already been pre-leased and how much remains, I remember you have given 30% last quarter?

Vikaash Khdloya: Sure. Thanks, Murtuza. So, in terms of the recent deliveries, 1.4 million square feet, approximately 62% of that is currently pre-committed and they have certain growth options which may take the number up to 64%. So, that's across the 1.4 million square feet, both in Bangalore and Noida put together. The balance right now is available for being let-up. And again, our view is the same as I mentioned, that over the next two quarters we may see demand being subdued. And we will have to wait and see when it returns. We do believe that both the projects, Manyata NXT as well as Oxygen are best quality products in respective micro-markets. And whenever we do see return of demand, we think these properties will see healthy traction.

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

Kunal Lakhan: My first question was on if you have heard from any of our large clients if have they given any information on consolidation of the portfolio? And to be more specific, actually Cognizant, which is our second largest tenant, in their earnings call, highlighted that there would be net reduction in its employee base in FY2021. And moreover, they would be looking at optimizing the mix of employees in terms of working out of office and working from home. So, just basically like any indication from our large clients on consolidation of the portfolio?

Mike Holland: Thank you very much for that question, which covers a fair bit. So, have we heard from our large clients about consolidation. One of the things that we make great efforts to do is to be in touch with our occupiers and understand what they are doing. And we have been in touch with a couple of dozens of them through the COVID period last couple of months where there has been work from home, which you mentioned in relation to Cognizant. Just some feedback on that work from home side of things. I think it's clear that the outcome is going to be that there will be more flexible work styles, but there will certainly be a core base at the office place. We have heard from those corporate occupiers that the work from home program through this lockdown has been "Competent, but not comfortable", this was a phrase that one of the users applied. They clearly had many problems and challenges around the work from home side. I mean, the company that you mentioned, they had to procure significant amounts of hardware to have their people work from home and so on and so forth. Many of the companies that we have spoken to have confirmed that they have had challenges around the digital infrastructure at home and the physical infrastructure. If you think about the demographic that works for these companies, it's young, often single, sometimes staying in PG accommodation. One occupier told me about individuals who were literally working from home sitting on the edge of a bed for two months. And clearly that doesn't work. Another business leader outlined to me that their demographic, which is that young, tech demographic, they want to be in the office. He said, "the office is their home", it is somewhere that they come to for food, they come to for friendship, they come there for the company culture. Many of the business occupiers have talked about, "how do we build company culture if people are in their homes".

So, we definitely feel that work from home is something that has been challenging and that there will be more flexibility as we go forward. But, certainly the core people from the company will be based at the office. And then, it is challenged as well by this whole move for more social distancing and de-densification, whereby people will need more space. So, yes, some level of flexible working. But actually, if you do the numbers in terms of employees with this de-densification, companies are likely to need the same or, in fact, more space in the medium-term.

Vikaash Khdloya: Just to add a quick snippet on that. We have also seen, during this pandemic, tenants which have had some positive impact – notably in areas like digital transformation, cloud, some of the companies that support technology for the retail sale in their respective home markets, some of the gaming infrastructure companies. And in fact, outsourcing in few areas, as some of the IT companies had discussed, has increased. So again, we will have to wait and watch how this plays out. I think if there is a trend towards consolidation, it will actually benefit the larger landlords, such as Embassy REIT. I do think in the next one to two quarters, everyone will just make a good detailed assessment of the health and safety of employees as well as where they stand, return back to work and then kind of move on to some of these decisions. And we will see how that plays out.

Kunal Lakhan: Fair enough. And my second question was on, if I see from the presentation, and even from your commentary, our mark-to-market expectation still stands at about 30% higher than our in-place rents, which is basically unchanged compared to the pre-COVID expectation. Considering the overall slowdown expected in the IT spending globally and the fact that 50% demand continues to be driven by the IT sector, how confident are you of achieving this 30% mark-to-market growth?

Vikaash Khdloya: So again, a couple of things. One, we do think leasing decisions will get deferred over the next one or two quarters at a minimum. Lease-up will take time given the demand has softened. But one of the things that kind of works in our favor is our ability to be patient and hold on to rents, that's one of our strengths. We are obviously nimble and have a hands-on approach. And while there will be pressure on rentals in the near-term, especially on the reversion, we think that given the tenants have already spent their capex, they will have to kind of make an assessment of capex on relocation, whether they just renew and focus on the employee safety and some of the other challenges posed by the pandemic. It's still early days, and we will have to see where we go. But based on the early discussions and on the 400,000 square feet advanced stage renewals, that are currently underway for FY2021, the mark-to-market has been relatively resilient. But we will have to wait and see.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A. Chattopadhyay: My first question is on, again, rental escalation. Obviously, there is space which is up for renewal but there are also some escalations which are automatically triggered in the contracts, either 5% annual escalation or 15% escalation every 36 months. So, do you see any risk to that? That is one. Secondly, just wanted to clarify on the facilities management, at least for your power that we are going to be using across your office parks. Are they typically on take-or-pay contracts? And do the tenants have to pay this, or do you have to pay the usage to Embassy Energy or whoever is supplying the power? Thank you.

Mike Holland: Thanks for the question. You know, rental escalations, it's a standard contractual position. In the past, we have escalated many millions of square feet every year under contract. It's something that there will always be some endeavor to negotiate, but it's not something that we see material risk around. There will be pressure for sure, but it's a straight contracted position. So, we don't have concern on that. In terms of power, it is a pass-through cost, it is fully recovered from the tenant for their space.

A. Chattopadhyay: So, just wanted to ask, is it take-or-pay when you purchase power? I am just coming from what happens in malls, many guys have a year-round contract with the supplier, and they have to pay regardless of whether the thing is running or not. So, I just want to understand how it works in your case.

Vikaash Khdloya: So, I am just going to break this into two. One is, certain occupants procure power directly from the DISCOM and that's fully variable, in the sense they get billed by the DISCOM and we act as facilitators, based on actual usage. Now, on the portion that the tenants get supplied power from our solar power plant in Karnataka. On that, of course, they are billed on what they utilize. But we have generally seen that there is healthy take up for the 200 million odd units that our solar plant generates. Obviously, the generation doesn't cost anything, it is a solar plant. But we would want to max out on the utilization of the units that is generated. What does happen is, by DISCOMs, that is the electricity authorities, is that we do get facility of banking. So, any unutilized units during the course of a financial year can be utilized at any different point in time during that financial year. So, for example, in April and May, where offices were working at low capacities and there were, let's say, 50% of units generated in that month, which were not utilized, we can bank it. It's more like a credit with authorities, which we can draw down later when occupants pick up activity to full speed. And basically, power is then treated as a fungible commodity.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: My first question is in continuation with what some of the other participants asked. If you specifically look at a business park of the size of Manyata, where we are talking about the difference between in-place rent and market rent being pretty significant, almost 26%. Just wanted to understand from you that, as you negotiate some of this, and I understand most of these tenants are pretty large size, would it be fair to assume this kind of mark-to-market opportunity at this point in time, because clearly we are in a very different world post COVID. So, just wanted to get a sense on mark-to-market potential, particularly for these kinds of escalations, what you are expecting in Manyata. That would be question number one for me.

Mike Holland: Okay, well, let me take that. Actually, the reality about large occupiers, the challenges of relocating thousands or sometimes tens of thousands of their employees, finding another park of a similar scale, quality and size is something that takes years to plan. So, this is a dislocation that has come in the last two months. We will approach each negotiation individually, independently, and we believe that quality of the total business ecosystem that we are providing in the large parks, particularly you have given an example of Manyata, is something that is unmatchable, actually in that micro-market in North Bangalore. So, by way of example, an occupier will have to look at somewhere that's got hotels that they can have their staff staying and they would have to look at conferencing centers, they have to look at sports facilities for their staff, they have to look at developers who are providing the health and safety, the governance, the compliance that we are able to provide, and so on and so forth. So, it's not only about the price, and it's also something that takes time. Large-scale occupiers would generally be discussing these a couple of years in advance. So, our conversations to date, we are comfortable with where we are at with our large-scale occupiers.

Vikaash Khdloya: And just to add to that, Pulkit, two minor points from my side. One is that all the expiries don't come up in a single year or single point in time within the same year. And what we are seeing right now is an extreme period of uncertainty. But with the hope that life gets better as we move forward, we do think that the expiries which are spread over a period of time and within the same year, they will kind of achieve some of these mark-to-market. And the second thing I want to mention is, for the existing occupiers, you interestingly mentioned Manyata, which is a great example, with 99%+ occupancy, the last thing that an occupier would want to do today or the next two-three-four quarters is to kind of do a large consolidation exercise or a complete complex math on where next to relocate, how to make the employee commute to work, what capital infrastructure investments that the corporation needs to make etc. And they would just like to focus on existing landlords, guys with whom they have great comfort, happy with their quality, do more of the same and actually focus on multiple other challenges that they would have in their business. So, both in the short-term, as you see guys whose expiries are coming up in the next one year, especially the existing ones, they just want to continue with the same thing. And hence Mike said that they would obviously want to come back and ask for a little bit of favorable terms, and that's the strength of our team, it’s how we end up negotiating on these. But in the mid-term, we do hope that the demand scenario improves. So, we just have to patiently work through this and be very active on our lease management. And in the next two or three quarters, we will see how some of these things play out. We remain relatively positive on the strength of some of these mark-to-markets.

Pulkit Patni: Fair point. My second question would be, are you also seeing any change in the way these contracts are structured, in terms of both the length of the contract and future escalation, any comments on that post the COVID world?

Mike Holland: So, I mean, we are not yet post the COVID world. So, length of contract, we haven't in the last couple of months seen anything arising from that. Certainly, people will be looking closely at the force majeure clauses within their contract, because as it stands, most contracts do not favor the occupier from that perspective. But I think, again, to go back to Vikaash's point, most occupiers today are not focused upon transactions and leasing, they are focused on trying to sustain their existing businesses, manage the very challenging environment about work from home and manage the return to office protocols. Vikaash mentioned that yesterday there were 12,000 people from 120 companies working in our parks. It's a very complex and challenging process to get those people back to work in a safe and healthy way. That is what the corporate real-estate teams are focused on at present. One of the large-scale occupiers in Manyata had actually said to me, that they will spend probably six months in working out what's happened and what's their strategy to respond going forward. So, it's not something that was here yesterday and gone tomorrow, something that will take at least a couple of quarters before people figure out where things are going.

Pulkit Patni: That's a fair point. I think we will take about a quarter to actually know where things stand. But thanks a lot for those answers.

Moderator: Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: I have three questions. Firstly, following up on the question from one of the earlier participants. Can you help us understand, so far based on your interactions with tenants, that tenants from which sector and micro-markets are coming for downward renegotiation of rentals? And as a follow-up to this, from the upcoming 1.4 million square feet renewals in FY2021, how much would be from these sectors?

Mike Holland: I think we spoke about 6% in four different sectors, which is shown there on the slide in the deck, slide 18. That are directly impacted sectors for sure. I really want to highlight this issue about our technology focus in our portfolio. And, if there is one sector that is prospering and shining through this challenge, it is the technology sector. We have got many examples of companies that are doing extremely well through that. So, our interactions with tenants, and of course, just business intelligence, which would line us up towards travel, aviation, retail i.e. direct retail, not for example, a number of our retail tenants are supporting omni-channel retailing in the Americas. Those companies are actually doing very well because of the high percentage around the ecommerce.

Vikaash Khdloya: Just in terms of your query on the percentage on the 1.4 million square feet, it is less than 1% of the occupiers that are from the directly affected sectors. Again, I just want to mention that, while we have done a preliminary assessment of the sectors, how some of the businesses play out, we will have to see over the next two-three-four months. I think, as of now we think it is a very low percentage of our next one-year expiry. Again, I just want to highlight, one thing which may be reflective of this is that we have already collected or have got commitment for 95% of the April rent, which was during the height of the pandemic. And May collections, we think, is also going to achieve similar results.

Amandeep Singh: Sure. That's helpful. Secondly, how much of incremental costs are you expecting resulting from increasing safety measures like security protocols, thermal scanners, sanitization, etc.? And how much of this would be shared with the tenants?

Vikaash Khdloya: So, just to break that into two. One, on most of the operating and the regular initiatives in terms of safety, hygiene protocols, enhanced wellness related initiatives that we will undertake, all of that is recoverable from the occupiers. It is fully chargeable to them as part of the common area maintenance. And in fact, this is one area where neither we as landlords nor the tenants would want to kind of compromise, we want to adhere to the best standards possible. But we may incur a very small proportion, on the top of my mind if I have a number, it is sub Rs.10 crores on some of the capex which we are thinking as of now. And again, this is evolving. As of now we are thinking on some thermal cameras in all our parks and that may cost sub Rs.10 crores on capex, which will be to our account. All the opex will be to the occupiers account.

Amandeep Singh: Sure, that is helpful. And lastly, to what extent do you expect de-densification requirements post COVID-19 offsetting adverse impacts resulting from emerging trends like work from home, which you were mentioning earlier?

Mike Holland: So, the best way I can answer that question is that almost verbatim response that a top-tier banking company explained to me. He said, "I can only accommodate, under the new spacing protocols, 28% of my full-time employees within my building, if I bring them all or as many as I can back to the office". It's not 50%, for him it was 28%, with appropriate space in between desks. And that's an occupier with a couple of thousand employees here in Bengaluru. So, de-densification is something that should not be underestimated. And it's quite possible that it will more than exceed the percentage of people that would be work from home basis. Which is why my comment earlier on, that it's quite possible that there may be an additional space requirement. And we certainly believe that the best occupiers will be looking for more space per employee for that collaboration and communication and culture building that we spoke about. Large international companies, particularly in the tech space, have been moving that way for a number of years, high quality, low density space. And we think that that's a trend that will continue and will work in our favor.

Moderator: Thank you. The next question is from the line of Manasvi Shah from ICICI Prudential Asset Management. Please go ahead.

Manasvi Shah: Aravind, can you run us down as to how have you calculated this impairment loss for the hospitality segment?

Aravind Maiya: Sure. In relation to impairment, basically what we have done is, first, the Gross Asset Value has been done by our independent valuers, which is iVAS with value assessment by CBRE. So, what they have done is, they have looked at the impact to some of the key assumptions into the business valuation, including occupancy, be it the gross operating profit or the ARR. So, the potential impact of the pandemic into some of these key assumptions over the next, let's say, one year has been factored. And basis current knowledge, what would be the long-term impact has been assessed and factored into the valuation done by them. So, this is basically the base for arriving at what we look at as the recoverable value for these two assets. That is being compared with our book value and that's the basis for arriving at this Rs.1,775 million of impairment.

Manasvi Shah: Okay, fair. And operationally, what sort of impact do you assess from the valuation perspective? What sort of impact do you envisage for the hospitality business over the next one year? I mean, just to understand, what sort of fixed costs, etc., will you still have to continue to incur without any revenue? So, if you can just provide some details there.

Vikaash Khdloya: Sure. Two or three things. One is, just to highlight, so for FY2020, the financials and results that we are discussing, hospitality contributed 0.6% of the NOI, so it's a very small proportion whether you look at it from an NOI, Gross Asset Value or distribution contribution perspective. However, hospital segment is one of those segments which is severely impacted. And I think it will take time before both occupancies and ARRs pick up. We don't know today when that will be, but our guess is, at least for the next three or four quarters, business will be significantly muted. So, having said that, what we understand the valuers have done is factored some of this outlook perception that they have on the hospitality into the valuations, which has resulted in this impairment, which obviously reflects the value of the asset at that point in time based on today's assumptions. In terms of the driver of hospitality on the overall distributions for the current year and/or what are the fixed cost across both our hotels. Approximately we believe that the per month fixed cost, assuming we do not earn even $1 of income or we do not rent out even one room day, we believe that our expenditure will be approximately Rs.50 million or Rs.5 crores across both these parks post the cost conservation measures that we have instituted. So, that's going to be the impact, Rs. 5 crore per month, both hotels put together. We do hope that some revenue kicks in as the situation improves, but this is the absolute worst scenario.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Just a follow-up. We saw some drop in occupancy in a couple of assets, Embassy 247, Quadron, etc. Can you just highlight what the outlook for occupancy looks for them for the year going forward? Do you have any visibility or it's something that you will have to look at?

Vikaash Khdloya: Sure, Murtuza. So, a couple of things. I think, Embassy One which we have consistently maintained, is taking more time for lease-up, and certainly post the COVID disruption, we think the stabilization would take even more time, so we will just have to be patient. We want to hold on to the rents which the project of this quality deserves.

In terms of 247 Park, it is as of today, fairly occupied with occupancy over 90%. It does have certain tenants from the impacted sectors, namely retail as well as co-working, so we are working through that. But we recently completed a fantastic repositioning exercise in Q2 of the last year. And we think that it’s one of the better assets in the micro-market with the best quality amenities. We have to just wait and see how this pandemic pans out. But as of today, occupancy is at a comfortable level.

Coming to Quadron, Quadron has been impacted and, even in the upcoming expiry figure, we do have expires in Quadron which will come up. And again, this is majorly not specific to the asset or specific to the industry to which it caters, which is technology. It has more to do with one or two occupiers wanting to do mega consolidation in the last quarter, wherein they consolidated about 1.5 million square feet on the other side of the town, actually paying much higher rentals. But they just wanted to be in a different location, and we couldn't offer a product in that location. So, Quadron, again, it's in the right market, good product, but we do believe that we will have to be patient for the next two quarters, as we see demand returning post the COVID shock. Again, that's the benefit of a portfolio of this scale. There will always be certain moving pieces in few assets. But we try and leverage and focus on where we can kind of maximize occupancy to ensure at a portfolio-level we are at a high occupancy of 93%-95%.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: I have three quick questions. First, if you can just highlight as to what proportion of tenants would have invoked force majeure clause so far and would be paying rent under protest? That's point number one. Point number two, if you also can highlight the legal framework for any tenants to partly surrender the space and how do we compensate ourselves against that possibility? Why I am asking this is related to point number three. We are hearing of a new trend in which earlier there used to be a lot of mega consolidation of workforce at specific location, now given how the scenario is changing, there is a thought process of deconsolidating this workforce again. And therefore, there might be a thought process by tenants to take out some part of their workforce into newer locations. And therefore, they would want to surrender some of the space. So, that's probably the three questions that I have.

Mike Holland: Can I perhaps deal with these in reverse order. What you call as a new trend of reverse consolidation, I think it's way too early to be talking about new trends. That is nothing other than speculation in the marketplace. And it works for some providers, it doesn't work for others. One thing is for sure that there will be a trend towards better quality, better governed spaces. The idea that companies would fragment their existing holding in order to spread across the city, we are nowhere close to the companies even having worked out a strategy. I mentioned earlier on, there is one company that we are talking about, they would take six months to figure out what has happened, and what's our strategy going to go forward. So, I think with that respect, it is nothing but speculation.

The second piece, the legal framework on partial surrender, the lease structure is such, generally, that it will be all or nothing. There are some leases, that would certainly be with some of the large occupiers and legacy leases, that may permit halves, usually for floors, for whole buildings to be surrendered. It's quite unusual that leases would all be co-terminus, so they would be all expiring at different times. But generally, the legal framework is that it's an all or nothing surrender.

In terms of the numbers of tenants who attempted to invoke force majeure, it's not something that, frankly, is problematic for us given our lease structures. I think tenants are aware of that, it's well known and that, again back to Vikaash's point, goes to the fact that we have collected 92%-95% of rentals. We have had tenants, even tenants with billions of dollars of cash on their balance sheet, who would try to negotiate, but they paid their rents. That's just business. So, I think we are comfortable with where we are at with our lease structures. There generally it's all or nothing, tenants have to give all of their space back or stay in place. I hope that answers the three.

Rakesh Vyas: Yes, it does. Thank you so much.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to Mr. Ritwik Bhattacharjee for closing comments.

Ritwik Bhattacharjee: Mike, you want to conclude with closing remarks, please?

Mike Holland: I just wanted to say thank you to all of you. I know that like us you will be spread over a number of locations. But, thank you for making the time to dial in and for those excellent set of questions. And I do hope that you can see we have had a great FY2020, so we are really pleased about that. The distribution that we spoke about at the time of our listing, just over one year back, we delivered on that, we are very happy about that. We are very focused on business continuity, and that will demonstrate the resilience of the Embassy REIT business model in the coming months and years. So, thank you for your time this evening. Stay safe and take care.

Moderator: Thank you very much. On behalf of Embassy Office Parks REIT, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.