Embassy REIT
4Q FY2021 Earnings Call
April 29, 2021

CORPORATE PARTICIPANTS

Michael Holland – Chief Executive Officer (CEO)

Vikaash Khdloya – Deputy CEO & Chief Operations Officer (COO)

Aravind Maiya – Chief Financial Officer (CFO)

Ritwik Bhattacharjee – Head of Capital Markets and Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for the Embassy REIT's fourth quarter FY2021 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 of Capital Markets and Investor Relations for Embassy REIT. Sir, you may begin.

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Ritwik Bhattacharjee

Head of Capital Markets and Investor Relations

Thank you, Margaret. Good evening, everyone and welcome to the Fourth Quarter FY2021 Earnings Call for Embassy REIT. And, wherever you are particularly for those of you who are listening from India, we hope you and your loved ones are keeping safe.

Embassy REIT released its financial results for the Quarter and Financial year ended March 31, 2021 a short while back. As is our standard practice, we have placed our quarterly and full year financial statements, earnings presentation discussing our performance, and a supplemental financial and operating databook on our website at www.embassyofficeparks.com in the 'Investors' 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. Further, there are significant risks and uncertainties related to the scope, severity and duration of the ongoing second wave 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 today are Michael Holland, the CEO; Vikaash Khdloya, the Deputy CEO and COO; and Aravind Maiya, our CFO. Mike will start off with the FY2021 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)

Thank you, Ritwik.

Good evening everyone and thank you for joining us on the call today to review our Q4 and full year FY2021 results along with our outlook for the coming year. While Aravind will take you through the detail on our full year numbers, we are very pleased to confirm that we have delivered in-line with the guidance set out at mid-year back in October 2020.

You may recollect that, at our last earnings update in mid-February, I had expressed optimism at the decline in COVID cases and the resultant acceleration of return to work by our occupiers. Since then, we have seen the acceleration of the vaccine rollout, but the second wave of cases will delay the return to office and consequent uptick in leasing.

Despite the current short term set back with the second wave, we continue to be encouraged on a number of fronts for the mid to longer term:

First, in addition to delivering on the guidance set out at mid-year back in October 2020, we have now completed two full years since listing, one of which has been fully under the shadow of the pandemic and yet we have delivered 24% in total returns and, taking into account Q4 distributions, we will have distributed over ₹37 billion ($500 million) since listing.

Second, the resilience of our business has been clearly demonstrated – delivering in such a manner despite the global and local challenges. We remain strong on our operating fundamentals. In FY21, we have collected over 99% of our office rents, signed new leases and renewals of 1.2 msf with re-leasing and renewal spread of 18% and 13% respectively. Even in today's challenging market, our year-end occupancy stands at a healthy 88.9%.

Third, a consensus has emerged, as we had articulated a year ago, that the office of the future will be a place for collaboration, community, and learning and that while we will see more flexibility in the working week, that office, and in particular the type of office product that we provide, the total business ecosystem, will continue to be in demand from the best global companies. The office will continue to be a key tool for attracting and retaining the best STEM talent here in India.

Fourth, the occupiers who we serve, utilizing technology to support their global businesses, continue to prosper and forecast strong growth including significant growth in hiring - a recent NASSCOM and Kotak research report estimates a record annual headcount increase of 350k in the Indian ITES industry for FY2022. In the last two weeks, we have heard public results with India's leading technology services companies reporting all-time records in business pipeline and hiring in Q4. Similarly, global banking majors, several of whom have their captive centers in our parks, are reporting record Q4 earnings and growth in their home markets. So, numerous strong indicators of growth in our core customer segment.

And finally, we again underline the continuing appeal of the office market in India. Supporting high quality global businesses which continue to grow in a digital and geographically agnostic world, Indian office has a strong future. And within India, with over 70% of our portfolio value, we are focused on the leading market, Bangalore - the market with lowest vacancy, the highest absorption, the largest stock, highest technology export value and most global captive centers in India.

So even in the midst of this second wave, there is a great deal to be positive about around our business – the last year and the coming years. Looking beyond the pandemic, we are using this period to accelerate our growth through the new on-campus developments, to develop our acquisitions pipeline, to sharpen our long term ESG plan, to raise the bar with our occupier engagement activities, to continue to reinforce our already strong balance sheet – to prepare for our next phase of growth as the world returns to work, as it certainly will.

Let me now handover to Vikaash to discuss in detail our business and operating performance.

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Vikaash Khdloya

Dy CEO and Chief Operations Officer (COO)

Thanks, Mike. Good evening, everybody.

Our business performance was resilient despite the major impact of the pandemic. Business highlights for the full year FY2021 include:

- Our properties were fully operational throughout the pandemic, with over 90% occupiers operating from our parks.
- Our rent collections were robust at over 99% and we achieved 13% rent increases on the entire 8.4 msf scheduled escalations;
- Our total lease-up stood at 1.2 msf across 43 deals, of this half were new leases at 18% re-leasing spread, with the balance being renewals at 13% renewal spread;
- Our 5.7 msf on-campus development programme continues at pace and we are on target for the first phase with the delivery of 1.1 msf JP Morgan campus later this year; and finally
- Our on-ground teams continued our asset management efforts, we successfully integrated ETV asset, undertook several upgrade projects as well as wellness initiatives during the last year.

Now let me take you through the details.

First, the impact of the second wave on our operations

All our parks continued to remain open for business despite localized restrictions on movement. However, the current second wave, with rising daily cases, has interrupted the ramp-up in employee numbers at our parks. Consequently, timelines for back-to-office ramp-up is likely to be deferred by 1-2 quarters. On the positive side, a mass-scale vaccination roll-out is currently underway in India and this will positively influence the rate of return to offices as is the case worldwide.

Our on-ground teams continue to support businesses through this second wave. Through our partnerships with leading hospitals as well as support of local civic authorities, we are facilitating vaccine roll-out at our park premises. This is in addition to our safety initiatives and our investments in touchless technology, advanced air filters etc. Our recent association with WELL Institute is another illustration of our focus on providing world class health and wellness-oriented solutions to our occupiers.

Moving to our leasing performance and outlook

In FY2021, we collected over 99% of rents on our 32.3 msf operating portfolio, secured all our rent escalations due, a 13% escalation on 8.4 msf across 94 leases, and successfully concluded 2.9 msf of rolling renewals. Delivering on above in a pandemic year reflect the strong underlying covenants of our occupiers and the active lease management efforts by our teams.

Further, we leased a total of 1.2 msf across 43 deals in FY2021 at market rents with an average lease tenure of 8 years. Breaking down this 1.2 msf lease-up, half were new leases across 23 deals at 18% re-leasing spread and the remaining were renewals across 20 deals at 13% renewal spread. For Q4, our total lease-up stood at 124k sf across 8 deals comprising 50k sf of new leases and 75k sf of renewals. Also, as reported during the previous calls, we witnessed 1.5 msf of exits during the last year – a mix of 'business-as-usual' churn, portfolio housekeeping and COVID induced exits. Factoring the above new leases and exits, our portfolio occupancy stood at a healthy 88.9% on 32.3 msf operating area.

While site tours, decision making and new deal activity were picking up in January and February 2021, the second wave has once again deferred new leasing decisions for 2-3 quarters and is dependent on lifting of localized restrictions on movement as well as speed of vaccine roll-out. However, based on our conversations with large occupiers, office demand in India is expected to pick up meaningfully in medium-term given the rapid technology and digital acceleration, growth in underlying businesses of our occupiers as demonstrated by recent hiring trends, necessity for physical office as publicly stated by a number of leading global and Indian corporates, as well as positive impact of lower densities given that social distancing norms are likely to be a permanent feature at workplace.

Our portfolio's best-in-class positioning – whether it is our technology sector concentration, or our geographic concentration to Bangalore, which has witnessed 37% of overall absorption in this pandemic year, or our portfolio's resilience in Mumbai city, where occupancy stood at a stable 83%, similar to pre-pandemic levels – all of these demonstrate that our properties are well positioned and likely to be the primary beneficiaries of the significant pent-up occupier demand. Till such time, we continue to maintain our new deal discipline, deepen our occupier connects and listen to their evolving needs and ready our available spaces for occupiers.

Now an update on our development programme

We currently have 5.7 msf under development across four of our existing campuses in Bangalore, Pune and Noida which are due for delivery over the next 2-3 years. This development helps us expand our existing campuses and is significantly de-risked. First, only 1.1 msf is due for completion over the next full year and this built-to-suit campus is already fully pre-committed to JP Morgan and on track for delivery in September 2021. Second, over 70% of our current development is in Bangalore, by far India's best office market, and in two of our largest and market dominant properties – Embassy Manyata and Embassy TechVillage. Third, construction permits are in place and financial closure has already been achieved for these projects.

The timing of our new build projects fits well into expected demand bounce back in early CY2022, and increased emphasis by global corporates on the quality of campus infrastructure. Current RFPs in the market, already standing at over 20 msf, are also likely to gain significant momentum given the continued hiring and growth reported by tech occupiers and global captive centers or GCCs. Further, international property consultants have already assessed the two-year forward supply to be down by 25% and actual supply slippages may be significantly higher. This provides an opportunity to undertake new-build at attractive development yields given land is already paid for and given our financing costs are amongst the lowest in the industry. Hence, we continue to invest in new on-campus development as a significant growth driver to enhance our future operating income and DPU.

Next, we are continually enhancing our Total Business Ecosystem

- In Q4, we fully integrated the recently acquired ETV property into our portfolio. We transitioned the on-ground teams, stepped up the execution pace of the 1.1 msf built-to-suit campus and have kick-started an additional 1.9 msf of office development. Given ETV's presence in a key sub-market in Bangalore, this acquisition has enabled significant addition to our market offerings to occupiers and will drive our portfolio's growth.
- We have doubled down on our asset management efforts and are utilizing this downtime to implement planned infrastructure and upgrade projects to continually enhance our value proposition. Notable completions planned in the year ahead include the amphitheater, flyover and skywalks at Embassy Manyata, addition of over 100k sf F&B and amenity spaces across our portfolio and the comprehensive asset re-positioning of Embassy Quadron. At early stages of planning is the integration with proposed metro stations for our ETV, Embassy Manyata and Embassy Quadron properties.
- While our two operating hotels totaling 477 keys witnessed an uptick in occupancy in Q4 with improved visibility of business on books, the second wave and travel restrictions have negatively impacted room demand. Both our hotel operators, Hilton and Four Seasons, are working towards an improved performance contribution in FY2022.
- Our ESG initiatives have always been a significant part of our business philosophy and our 3-year ESG roadmap including GRESB assessment is already underway. Our 100 MW Solar park helps reduce an estimated 200 million kgs of carbon footprint by providing green energy to our occupiers and our 525 kW Roof top Solar project at Embassy 247, Mumbai has been awarded the 'Best Green Building Project of the Year'. We also continue our work within our local communities, particularly through our Corporate Connect and Education programmes.

Moving to our Positive Mid-term Outlook

As we conclude a challenging but successful year for Embassy REIT, delivering to our investors and corporate occupiers, we remain agile and flexible with our leasing efforts and we continue to gear up for our next growth cycle through 5.7 msf new development. We are utilizing this period of pause in decision making by occupiers to fortify our assets through investment in infrastructure and amenities and to be ready for the anticipated resurgence in demand. We will see acquisition opportunities emerge and we will continue to assess such opportunities in the market per our previously stated criteria.

In the mid-term, as we look beyond the pandemic, we are well placed to capitalize on the future opportunities given the continued growth in our occupier businesses, especially technology and global captives, and given that our portfolio comprises some of the highest quality properties in the Indian office market. It is very clear that our differentiated office portfolio will continue to attract quality occupiers, and that owners who have invested in amenities, services and technology will secure increased market share moving forward.

Over to Aravind now for the financial updates.

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Aravind Maiya

Chief Financial Officer (CFO)

Thanks, Vikaash. Good evening, everybody.

I will be covering three key areas with you today i.e., our FY2021 performance, a brief update on our balance sheet and outlook for FY2022. Let me start with our financial highlights for FY2021 which include:

- Net Operating Income grew by 12% YoY to ₹20,323 million, with operating margins at 86%;
- Total Distributions stood at ₹18,364 million or ₹21.48 per unit, representing a 100% payout ratio, with Q4 distributions of ₹5,308 million or ₹5.60 per unit for the quarter;
- Simplified the holding structure of Embassy Manyata, thereby increasing tax free component of distributions to 78% for Q4;
- Raised ₹52 billion debt at attractive 6.9% coupon and refinanced ₹32.8 billion existing debt leading to 336 bps interest savings; and
- Maintained our fortress balance sheet with liquidity of ₹15.5 billion and low leverage of 22%.

Now let me take you through the details.

First, our NOI and DPU were on target with our annual guidance

- Our **Revenue from Operations** for FY2021 grew by 10% YoY to ₹23,603 million mainly due to ETV acquisition, contracted rent escalations and income from new deliveries in Q4 FY2020 which were partially offset by reduction in hotel revenues and decrease in commercial office revenues due to occupier exits.
- Our **Net Operating Income (NOI)** for FY2021 grew by 12% YoY to ₹20,323 million, in-line with increase in our Revenue from Operations and reflects savings due to our cost saving initiatives. Our delivered NOI is on target with our full year NOI guidance. Further, on a same-store basis, NOI grew by 2% YoY, reflecting the underlying covenant of our 190+ creditworthy occupiers and the contractual growth inbuilt in our lease contracts.
- Our **EBITDA** for FY2021 grew by 12% YoY to ₹19,693 million, in-line with increase in our NOI. We have included further details on each of the above components for Q4 in our earnings materials.
- Our **Net Distributable Cash Flow (‘NDCF’)** for the quarter stood at ₹5,324 million and the Board of Directors have declared a Q4 FY2021 **Distribution per Unit** (‘**DPU**’) of ₹5.60 with the tax-free portion of distributions increasing to 78% for the quarter given successful completion of Embassy Manyata’s restructuring. For the full year FY2021, we have delivered distributions totaling ₹18,364 million or ₹21.48 per unit, on target with our full year DPU guidance. We are also pleased to confirm that the acquisition of ETV assets is accretive to our NOI and DPU, as reflected in our Q4 numbers.

As you can see, our robust cash collection ratios, leading operating margins, low manager fee and prudent leverage to fund select capex and growth initiatives results in our healthy NOI to unlevered distributions conversion.

Next, an update on our strong Balance Sheet

- In Q4, we raised ₹26 billion of listed debt at an impressive 6.4% coupon, our lowest cost debt till date, which were primarily utilized to refinance ETV’s in-place debt. Further, we have also secured ₹11 billion of SPV-level construction debt at 7.9% cost, one of the lowest in the industry. To round up our full year activity in the debt markets, we successfully raised ₹52 billion debt at an impressive 6.9% coupon through a combination of REIT level listed debt and SPV level debt and we refinanced ₹32.8 billion debt at 6.9%, leading to 336 bps interest cost savings.
- We continue to maintain a strong liquidity position of ₹15.5 billion and a low leverage of 22% Net Debt to Gross Asset Value (GAV). Considering our AAA credit rating, additional proforma head room of ₹126 billion and our ability to raise debt at competitive rates, we are in a strong position to

pursue growth through on-campus development and accretive acquisitions, thereby enhancing overall return to our Unitholders.

Moving to other financial updates

- Our independent valuer undertook a detailed property valuation exercise at year end and assessed the GAV of the portfolio at ₹466 billion with 95% of REIT's value from our core commercial office segment and with over 72% of value from Bangalore. We recognized an impairment loss of ₹989 million in our hospitality business as well as Embassy One due to slower occupancy ramp-up and current economic conditions due to the second wave. Factoring the above, our Net Asset Value (NAV) as of March 2021 stood at ₹387.54 per unit, a 3.3% increase to NAV as of September 2020.
- We are pleased to deliver on the simplification of Embassy Manyata holding structure within the timelines committed. Collapsing of the legacy two-tier structure has enabled Embassy REIT to significantly increase tax-free component of its overall distributions and our Q4 numbers reflect the enhanced post-tax returns to Unitholders. Further, we have initiated the simplification of holding structure of our newly acquired Embassy TechVillage assets and expect this to be completed by September 2021.

Lastly, our outlook for FY2022

As Mike and Vikaash mentioned, the current second wave is likely to delay return-to-work and consequently defer leasing plans by occupiers in the short-term. Considering this, we believe it is prudent to defer annual guidance for FY2022 till such time we have more clarity on trajectory of the second wave. However, I will provide a few key building blocks of our business components which may have a bearing on our FY2022 NOI and distributions:

- To start with, we will benefit from the full year impact of the successful 8.4 msf lease escalations in FY2021. Further, we have an additional 7.7 msf of upcoming contracted escalations across 89 leases during the course of FY2022 with an average 14% rent increase. Similar to FY2021, we believe we will be able to achieve most of these rent escalations as well as achieve continued current trend of collecting close to 100% of office rents;
- We are currently 88.9% occupied as of Mar'21 with 3.6 msf existing vacancy. Of our 1.9 msf expiries in FY2022, basis our conversations with occupiers, 0.5 msf are likely renewals and balance 1.4 msf are likely exits at this stage. The in-place rents on these exits are significantly below market and provide over 50% mark-to-market opportunity. We expect new lease deals to see traction/ conclusion towards end of CY2021 with an expected rebound in CY2022;
- We expect the full year impact of ETV acquisition to reflect in both NOI and NDCF for FY2022. As you are aware, we acquired ETV assets in the last week of Dec'20 and these assets contributed to the NOI and NDCF accretion in Q4 FY2021; and
- We will determine the timing, coupon structure and contours of a potential refinance of our initial ₹36.5 billion listed debt based on then prevailing market conditions. This NCD is due for redemption in June 2022 with call options in November 2021 and January 2022 for early prepayment.

Recent budget amendment enabling Foreign Portfolio Investment ('FPI') participation in REIT debt as well as the recent IRDA announcement in mid-April permitting insurance companies to invest in REIT debt, both give us access to longer tenor and larger pools of debt capital and are expected to be positive for our debt refinancing plans. These developments are very positive for us as a falling interest cost scenario contributes incrementally to our distributable cashflows to the benefit of our Unitholders.

We remain focused on delivering our NOI and quarterly distributions, maintaining our balance sheet discipline and continuing to reduce our cost of debt. Even after one of the most challenging years for businesses worldwide, we are pleased to report that Embassy REIT, remains in great financial shape, with a robust balance sheet which provides a strong platform for organic and inorganic growth in the coming years.

Over to Mike for his concluding remarks.

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Michael Holland

Chief Executive Officer (CEO)

Thank you, Aravind.

So, the key takeaways:

We have delivered on guidance for the past year FY2021 with ₹5,308 million distributions for Q4 and full year distributions of ₹18,364 million – underscoring the resilience of our business model through a full twelve month pandemic environment.

Notwithstanding the uncertainties created by the 2nd wave and the subsequent delay that will result in the re-opening of office and consequent leasing, our business remains resilient and ready for the future growth opportunities.

Our occupiers are largely international, technology driven and growing. On all parameters, we believe this will feed through to a leasing recovery in due course, though timing has been delayed.

We are absolutely confident in our various theses around the business. The total business ecosystem in this Digital Talent Nation, our geographic concentration, our on-campus development and our ESG focus. The management team remains focused, doing all that can be done in the current external environment, to deliver in the best interest of our unitholders. And we remain excited on the growth opportunities that lie ahead for our business.

We're happy to drill into any details in Q&A.

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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 Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: My question is on how much in the near term we will be on the downside? Specifically, we've seen over the last 12-months, the occupancy dropped by a few percentage points, and more importantly, if I look at the forward expiry in FY22, it used to be about 1.2 msf moved up to 1.5 msf, now the current quarter stands at about 1.9 msf, of which you talk about 1.4 msf being likely exits. If we were to take that as a certainty, you have the distinct sort of vacancy of 3 - 3.5 msf plus another 1.5 msf. Is that saying you're playing by each quarter depending on how the sort of pandemic behaves, to get a sense of what is the near-term damage in terms of occupancy, vacancy, etc? If you could throw some light on that based on your interactions with the tenants.

Michael Holland: Murtuza, yeah, I'll make some comments on that and then I'll ask Vikaash to add. I think we all experienced from January and February a very positive environment, and we spoke to many of our occupiers who were accelerating their move back to the office, they were talking to us about their overall business growth; spoke to some occupiers who had hired more people in the last financial year than any of their time in India. The businesses that we're catering to have a very positive outlook. We definitely feel that we're in a timing situation here, there obviously is a delay of two to three quarters perhaps. But fundamentally, the business is strong. We've gone through the detail of our expiries, we've used our best judgment, and of course, basing on conversations that we're having with those tenants, and that split of the likely exit and the balance. At this point, our best assessment is of where that will be. Now, you remember of course from last year, but in essence, with the six months' notice at the end of any lease term, we're able to look forward with great confidence on a six-month basis. So as the year moves forward, we'll be able to keep you updated quarter by quarter on that. That is the best estimate of likely renewals.

Vikaash Khdloya: Why don't we give you an example, Murtuza? Mike mentioned the health of the occupier’s businesses. I was speaking to the CIO of one of our existing occupiers, a Fortune 10 healthcare company, the conversation revolved around when can we move to an LOI and binding documentation, we are in advanced stages of additional space there and it has been paused. So, the flavor that we got during the conversation was that one, they have acquired a smaller company in a similar domain. Two, they're looking to consolidate some of the other smaller offices into one of our properties. Three, there's a clear mandate from the business that we need to de-densify from the 65-70 square feet proportion to 90 to 100 square feet, and they had a classification range based on the kind of work people do. And, this is not it, they're also saying that they are growing organically themselves, hiring more people. So just to give you a flavor, one, it's more of a timing issue and there's a complete pause. Businesses have hit record results, their stock is up 80%, but they don't want to take a call right now and just want things to normalize a bit more. So, these are the kind of GCC, the captives that we cater to. Definitely, in the short term, some of the expiries are being advanced from FY23, 200,000 square feet came to the FY22 bucket as you rightly mentioned. We see this more like a short-term phenomenon. It's been a year since we've been into the pandemic. So, we think today, this is our best estimate of what the exit could be in FY22. Occupiers continue to renew their portfolio optimization strategies, some of them would want in the short term to give up space, at the same time, we are seeing the large global captives who have started to think about 2022 and beyond the pandemic requirements. So, it is going to evolve, we'll have to wait until the next two or three quarters, but we remain really positive for the mid-term.

Moderator: Thank you. The next question is from the line of Kunal Dayal from Bank of America. Please go ahead.

Kunal Dayal: A couple of questions from my end. Firstly, how are you thinking about the rental trends going ahead? I guess last year panned out rather well. But as we face the second year of low occupancy, would you think that the rental trend could be any different either on getting the contracted escalations or catch-up during renewals? And then the second one is, I appreciate the 1.4 msf of expected churn in the coming year as being BAU churn. But at 47%, wondering why the tenants will be going elsewhere, so if there's any color you could provide as to what's driving these exits would be great?

Michael Holland: I'll take the question about rental trends. So, as you rightly say, the point that we were able to secure on 8.4 msf, 100% of our lease escalations, I think giving us an overall average of 13%, that was a great result. And as we've said again, we believe that 7.7 msf that we've got this year of contracted escalations that we will secure that or very close to that. We've got no reason to believe there'll be any change around that. You understand our business model, the occupiers in the space, the CAPEX fit-outs, there's a lot of inertia that prevents a move. In terms of overall rentals in the market, I've said before and I underline that these decisions are not decisions about to stay or go, expand, choose another building, they are not fundamentally about the rental and the rental rates. You know, better than probably anyone on this call, the industries that we cater to, the technology industries you know how well they are doing. And decisions that are single-digit percentages of their costs, that is rentals is not what drives decisions to stay, go, expand, contract. So, we believe, again, that the overall product quality and as Vikaash mentioned, we're doubling down in some areas on that to make sure that the portfolio is best-in-class, best in the market. We believe and we've demonstrated that through some of the deals that we've done in the last year that the best occupiers are not price-sensitive. We believe and you will see IPCs confirming that certainly in our main market, Bangalore, we remain a low vacancy market. And we're confident that the best companies will continue to pay the sort of numbers in rentals that have been the case.

Vikaash Khdloya: Kunal, just to add back to what Mike said and address your second part of the question. On the first part, all the 1.2 msf that we leased out in FY21 were at the market rent on a blended basis. We maintain the pricing discipline. Again, it's not the question of the price today, it's a question of, are we ready to make a decision? Having said that, I would just want to qualify what Mike said about our core markets with the fact that Mumbai is seeing rental pressure. I think Mumbai is the one exception where we believe there will be continued rental pressure over the next, at least three to four quarters. So that's on the rental trend. Other than that, Bangalore and all the other markets, which cater to the GCCs and the technology companies large scale, those we think will remain stable. Coming to your second question, the mark-to-markets are 47%-50%. Why are these guys leaving? So, let me break down the categories of occupiers who are looking to give up space, and what's happening there. So, we spoke about the COVID induced exits. A bulk of that we saw through last year, during the first year of the pandemic, the businesses with really weak business models, then came the portfolio housekeeping, which is large occupiers, mostly IT services companies, who have got a million square feet or a large space and the largest portfolio in India overall was now looking to do portfolio housekeeping to just optimize. So that's the second. And third is business as usual, whether it's relocation, consolidation, etc. So, these are the three broad categories. What we're seeing in underlying trends within the occupiers is that the global captives, the large banks and financial services companies, we have taken a call based on our discussions that they want to continue to plan for the consolidation and growth in 2022, 2023, 2024 onwards. And that's why we refer to the RFP pipeline. We believe when the decision-making pause comes to a conclusion and people start making decisions, these factors will be the first to take the decisions, because, for them, the quality of the spaces and the talent is really important. What will follow behind them will be the technology and product development companies. And then the last to follow in the pack would be the IT services companies. While it's counterintuitive, given that they have seen record deal wins and record hiring, I think, given the clients have permitted work from home, they're going to be last to ramp up on space. And when they do, we think it will be disproportionate to the benefit of the office industry. So, all in all, portfolio housekeeping, and the fact that they are into the 8th, 10th, 12th year of the lease and you have fully amortized fit outs, make it less sticky for them and they're taking a short-term view that, okay, let me just save on some costs now. We think we will gradually replace these IT services companies, more legacy leases with global captives who are looking to upgrade and come into larger business campuses.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Two questions; one is on slide 43, so this Rs.3,800 crores of debt maturity that you have, what is the current rate on this? I'm just trying to figure out what is the interest-cost saving you can potentially achieve in FY23. So, the point is on the overall Rs.10,000 crores debt, how much will the cost come down next year? And the second is on slide 28, where you've given the rent escalation. So, the way I should read the slide is, the rent escalations are on Rs.89 on 7.7 msf with 14% rent escalation, is what is pretty much going to happen?

Vikaash Khdloya: Hi, Saurabh, Vikaash here. Why don't I take the second one and first I hand it over to Aravind? On slide 28, what we're trying to say is that 89 is a number of occupiers/leases which come up for escalation, just to give you a flavor that it's not concentrated on few leases, it's spread over a lot of leases. And as you rightly said, 14% is a blended escalation, some of them are legacy for 12%- 13%, most of them are 15%, on the entire area of 7.7 msf during the course of the year.

Saurabh Kumar: I'm just trying to figure out this Rs.610 crores NOI you have, leaving the vacancy for a moment. What is the organic growth for next year?

Vikaash Khdloya: I'm just going to give you rough numbers here. Saurabh, if you factored FY22 escalations on a full-year basis, annualized rental - it is approximately 2.9% and FY21 escalation is about 2.4% of the annualized rental obligations.

Aravind Maiya: If I can just add on the organic growth, Saurabh, one is the escalation and secondly, we are getting into specific numbers, we, of course, have the growth coming in from the FY21 leasing as well, and a little bit of the Q4 FY20 leasing, which had a little longer entry period because of COVID. So, we do have organic growth coming in from that as well. So, that is in relation to the second part of your question. Saurabh, going to the first one, the expiry is of Rs.3,800 crores, a substantial portion of that is the 3,650 crores of a Series-I bond, the NCD, that is at an average of 9.35%. That's something as we stated, we will look at refinancing that either in November '21 or January '22 - these are the call options we have for prepayment.

Saurabh Kumar: So, on Rs.3,800 crores, basically, if we take the incremental cost which is 7%-odd, effectively you're saving 2% odd, right?

Vikaash Khdloya: That's correct.

Saurabh Kumar: And the Rs.4,800 crores will have the same cost as well, will be that 8.5% by FY 2024?

Aravind Maiya: If you broadly see, these are the more recent bonds which we did. Rs.4,800 crores will be I would say an average of closer to 7%.

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

Kunal Lakhan: Just want to get some sense on the exits. So, I understand these include your BAU exits and COVID impacted exits. What I wanted to understand is, are you factoring in exits here - where occupiers want to stay in your park, but have reduced their space requirements? What I want to understand basically, is whether in the exit guidance are you also including the occupiers who may move to a hybrid model?

Michael Holland: Let me comment generally on that. I think what we've done, we've looked at the whole portfolio, we've looked at the current leasing contracts for all of the tenants, based also on the conversations that we're having with all of our tenants. I think this is the best assessment that we have. I think it would be fair to assume that the most significant exits or downsizing for COVID-impacted industries have probably fed their way through, but we can't be 100% sure of that, but that's our view at the moment that this is our best assessment of the position.

Aravind Maiya: Kunal, just to add to what Mike said, the decision on a hybrid model will evolve similar to the decision on de-densification. I think we will see both these factors play out as we move forward. We think it will be a positive impact - the number of global businesses and Indian businesses, work from home is not sustainable. I think we feel very positive. De-densification is a necessity based on whatever discussions we've had on-ground.

Kunal Lakhan: But essentially, the de-densification may not net off if at all there is any movement towards all entries in the vacancy level?

Michael Holland: I think everybody has had a year to look at this and plan. You remember, we talked about this whole course to assess the accelerate phenomenon. We would expect that occupiers have figured out their medium-term strategy in terms of de-densification versus the hybrid working side of things. And then by now they would have made those moves and made those changes. Also, I would just underscore that a very significant part of our portfolio are these global captive centers who are growing significantly, who are speaking to us and reporting in the public, very significant hiring additions through the pandemic. So, again, as we've said before, the de-densification plus hiring growth is likely by quite some margins to outweigh any impact of hybrid working particularly for our type of occupiers.

Kunal Lakhan: My second question was if you can provide a bridge for ETV assets particularly, a bridge between the NOI and NDCF because NDCF is slightly on the higher side, I understand there are some one-off rents, there's some rental support, there are some fit-out rentals?

Aravind Maiya: Honestly, the bridge for NOI to NDCF is very similar to what we put out as part of our acquisition materials. If you see the three key items from NOI to NDCF - one, we have the finance cost, now we know the exact finance cost at which we raised Rs.2,600 crores bond as well as the existing Rs.1,500 crores debt. Number two is the Sarla rent support or the JP Morgan trend support from the Embassy sponsor, we have put the number in the acquisition materials, which is around Rs.28 crores per quarter. And number three is the fit-out rentals, which is accounted as a finance lease and we get approximately about Rs.17 crores per quarter on that. These are the three big moving pieces in terms of the bridge from NOI to EBITDA. I'm exploring the smaller items like operating expenses, etc.

Kunal Lakhan: I will take this offline because the NDCF was lower than NOI, the bridge you have provided for the first half, but in this quarter, it's NDCF is higher than NOI.

Aravind Maiya: I can specifically respond to this. In terms of Q4, there is a one-off item in terms of tax refunds. So, I've excluded that for the purpose of explaining the bridge, because that's a one-off item in Q4, and that's one of the reasons why you see that number to be high for Q4, but on a steady-state basis for FY22, we believe that the bridge, as well as the accretion, will be similar to what we had put out in the acquisition materials.

Moderator: Thank you. Next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Can you please help me understand what's happening to the same store occupancy? That seems to have fallen. While at the same time you have leased the existing area instead of the new area? How should one read this?

Vikaash Khdloya: You are correct, the same-store occupancy as of March '21 is 87% The reason for that fall is a couple of reasons. One, we did mention this during the last call, we had two occupiers; one who looked at portfolio optimization and the second who relocated and consolidated to the east of Pune. So, that's one key reason for the drop in the same-store occupancy, plus of course, we have seen a couple of portfolio housekeeping items in our largest asset Embassy Manyata. So, these are the two key reasons and probably last year - the top five actual exits contributed to two-thirds of the overall exits. So, given ETV is a newer asset, given the fact that most of the leases are within lock-in, we have not seen exits or expiries in ETV. So that is the reason you see the same-store occupancy drop, but now post-ETV acquisition, we look at the portfolio as one large portfolio, but that's the breakup of the numbers.

Puneet Gulati: But the overall occupancy is higher than same-store occupancy and that's what I haven't been able to understand?

Vikaash Khdloya: That is correct because ETV which we acquired in December stays resilient, and ETV occupancy is about 97%- 98%, which contributes 89% overall.

Puneet Gulati: My second question is on Manyata. For two consecutive quarters, we've seen the area getting vacant and that I thought was one of the strongest in the entire portfolio. What's happening there, why is it taking more time to lease Manyata?

Michael Holland: Let me make some general comments on Manyata. It is at 93.5% occupancy, so highly occupied, but you also have to look at it - it is an anchor and has been in the Bangalore market really dominating North Bangalore for 10 to 15 years. So, one of the great appeals that we have around Manyata is that the leases that are coming up for expiry over the next couple of years have a really significant potential mark-to-market. So, these are the types of occupiers who might have emerged in the mid-to-late 2000s, perhaps more in the IT services sector, precisely that segment that is large-scale but looking at efficiencies going forward. Now, we've reported on discussions and negotiations about those renewals, there are large scale leases. So those discussions take place for one to more years before expiring. So those conversations are ongoing. But the positive that we've got to highlight is the mark-to-market potential on these older legacy leases is well in excess of 50%, as I think Aravind mentioned. So, we're doing a lot of work around infrastructure improvement at Manyata, we are well advanced with the flyover that is easing traffic on the north side, we are well advanced with the hotel and conferencing center, which many occupiers are really speaking very positively about, they like the idea of pay-per-use on the conferencing center, that will give us a strong competitive advantage. So, with that infrastructure upgrade, with the hotel, with the metro coming at the entrance to that part, we believe that we're really well positioned for these lease negotiations as they come up this year and next for that mark-to-market.

Vikaash Khdloya: Just to add, Puneet, what Mike mentioned, just to put in the context of 300,000 square feet exit in Manyata is about 2% of the overall Manyata occupancy. Given the bunch of the leases are legacy leases, 10-plus years old, Manyata started leasing in 2006-07. We are seeing that expected churn, maybe COVID has expedited by a year or so, we are seeing the churn on the older generation occupiers and tenants moving out or trimming the portfolio and just like we see in ETV, the new age, the more global captives and the high-end technology companies will start taking the stage. So, I think Manyata will see the transition, it will mean that, of course, on a positive side there is MTM, of course, that also means that they may be an avoid period given the muted demand outlook for the next two quarters or so.

Puneet Gulati: So, will it be fair to assume then, as Mike also mentioned that one should wait for the infrastructure to get completed before we see it going back because it used to be 99.3% just about five, six quarters back?

Michael Holland: I don't think it's about waiting for the infrastructure. I mean, bear in mind that the decisions around leases for these types of large-scale occupiers are long-term decisions. So indeed, we're using that infrastructure work, which is going on now to our advantage in discussion with occupiers who might even be two years away from this point. So, the fact is that infrastructure is coming will work to our advantage in lease negotiations.

Vikaash Khdloya: Puneet, just to give you a perspective, this is just because the demand is muted, no decision is being taken. Otherwise, just about a month back, we were leasing out NXT, the newer building at Manyata at about Rs.105 psf, Rs.110 psf while CBRE assessment is Rs.92 psf. So, I'm just giving you a context of it's just about the pause. We just need to be patient for two to three quarters or so once decision making comes back, this is our most dominant asset, we will see lease-up and we are willing to be patient and disciplined given the significant mark-to-market, we can't do deals which are so significantly below market.

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

Pulkit Patni: My question is more on the book-keeping side. Just to understand the revenue for ETV, if we look at the occupancy of about 97.8% and 6.1 msf at Rs.70 psf, that translate into a revenue of about Rs.125 crores, Rs.126 crores. What you've reported is about Rs.171 crores. So, I understand there would be some CAMs in it. But how come the delta is so big, can you explain what the difference is?

Vikaash Khdloya: I think in terms of the breakup, this is similar to what we had mentioned the revenues, this includes the revenue from the rentals as well as fit-out income, as well as a little bit of additional car park over and above the CAM income. This is the breakup of the Rs.170 crores of revenue that we have in the TechVillage asset. The better metric may be NOI, given the CAM, both the revenues have reflected here, and the expenses will be reflected in NOI.

Pulkit Patni: But the delta in the revenue is quite significant. Maybe what I'll do is I'll just take it offline to understand that better. My second question is on the GAV for the solar asset. On a quarterly basis, there is a reduction of about Rs.70 crores. So, anything happening there, any problem with receivable, etc., or is that again normal course of business?

Aravind Maiya: It is normal course of business. We've factored in for two things; one, if you are aware, the solar has a limited life asset, which is a contract for 25-years, so there will be a natural decrease as time passes, that's number one. Number two, what the valuers have done is they've kind of rationalized the mix between industrial and commercial tariff. That has also caused the reason for a little bit of decrease in the value. These are the two primary reasons and there's nothing else.

Pulkit Patni: No impairment in this?

Vikaash Khdloya: No, there is no impairment in this. On the collection, it's just about the offtake of demand, some of it we are having to do it at industrial tariff given the low occupancy.

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

Karan Khanna: Mike, is there anything that you're picking up from global markets like Australia and Singapore that have contained the outbreak well? What I'm trying to understand is post containment what sort of leasing activity has started picking up in these markets?

Michael Holland: I do think we have got in India a fundamentally different office leasing market and business to many of the international markets that you talk about. That said, one of the biggest US REITs reported in the last couple of days, they're seeing some level of leasing activity. But this market is a different type of animal, different types of users, the scale of the types of deals that we do and so on. There's definitely a pickup in leasing. In those international markets, we heard earlier today, there is a flight to quality in those markets which we absolutely would expect. And we think we will see that in India. Those companies will use this time to make sure that they've got good quality, safe, compliance spaces. Many companies will do new fit-outs, de-densify and so on. But what is a common theme across both Asian and Western markets is that people are moving back to the workplace, including many of those technology companies, and there have been some widely publicized statements by business leaders. So that's very encouraging. We think the fact that we've got the vaccine rollout here in India, will also support that back to office phase.

Karan Khanna: The second question, Vikaash, in the last call, you mentioned that one of your top 10 clients that were looking for 120 square feet, new discussions on 150 square feet per individual in mind, we've also briefly touched upon that de-densification aspect on this bit. In the last year, have you seen or received any meaningful enquiries with respect to de-densification because globally, we have seen some of the leading banks are talking about a meaningful reduction in their long-term real estate requirements, they start adopting a more hybrid model which will require lesser space overall?

Vikaash Khdloya: Karan, thanks for the question. A couple of things there, right? One, I think given the second wave, it's still a little early for the de-densification to play out. But all logic, all data both by different property consultants, our conversations with occupiers as well as the Fortune 10 global company example I gave earlier, all point to the fact that it will be a factor for the best quality occupiers, the kind of customers that we cater to, that's one. Two, I think, we'll have to distinguish a little bit between the global banking majors and the captives with what they're trying to achieve in India. In India, what they're doing is, they're here to ramp up in numbers to tap the talent here. India is a significantly different demographic for them in terms of just the average age group of 25- 35 years for the employee. Having said that, I think what we are hearing is an early conversation from the same set that you mentioned, the banking and financial institutions, they are actively looking to grow more to take up more space, and obviously, de-densification is factored into the new consolidation and business plan and they're having this as a midterm outlook for 2022, 2023, 2024 and they are proceeding on that basis. So, we think it's going to be a little different for India, simply because one, the costs for these global captives is negligible with respect to rent. More importantly, if they have to hire the best quality talent, Mike mentioned about earlier, they need to ensure they provide them safe and wellness-oriented properties more so now during and post-COVID than earlier to ensure they attract the best talent and also ensure they're productive. So, we think it will take some time to play out post the pause over the next one or two or three quarters. But we think the largest occupiers we've spoken to, they're thinking on these lines on how to consolidate, move into larger campuses, increase the space, employees had gone down to as low as 60-65 square feet proposal, that is definitely going to increase, estimate say 100 to 120, different occupiers will have different thresholds, but that is one thing we think will happen. The timing of it obviously will have to tie it up with the increase in the resurgence in demand price.

Michael Holland: It's a really great question and topic, Karan. I just want to give three or four specific examples. So, one, it's not all about density. That conversation that I had with a global technology company who's a tenant of ours in one of our business calls in the last month, saying that they'd hired an 18% increase in their headcount in the last year, it was the biggest hiring uptick that they've ever had in India. The hiring uptick washes away any conversation about density, right. So that's one factor, it's just the pure addition of headcount. And that's also definitely applicable to the big banking companies. We have that direct feedback. The other issue is that many of the global captives and I'm thinking of some public statements have been made by a couple of them have talked about how they have over the last few years, decade or so, as they've been growing so quickly, that density that they were starting out with 200 or 220 per person had gone down simply because they couldn't keep up with the hiring rate, that they're now bringing that back up to that 200 square foot type of density. And just the third and final point, this issue about workspace per employee, and I think you might be alluding to that in one of the banking statements that was made in the last couple of weeks, we have a relationship with one of the big global banks when they built their own campus, they provided spaces for only 80 of every 100 employees, because that takes account of the fact that people are out of the office on holiday and so on and so forth. So that level of efficiency has always been there in the way in which people design their office spaces. So, we'll probably see less of that compressing. And that will result in a lower density per person going forward. So, it's absolutely clear, there are going to be more people working in a less dense office environment in India, and that that may well be very different from some of the global markets that we talked about.

Moderator: Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: I am just trying to understand the hesitation in providing guidance. I mean, we had a fantastic year where we were able to give guidance despite all the challenges. So, what is that uncertainty that you're seeing, I mean, is it related to occupancy, is it related to a new lease?

Aravind Maiya: As I did mention as part of my prepared remarks, while we have laid out some of the key movers, we are as of today uncertain about the trajectory of the second wave. And that's the primary reason why we have decided to defer guidance and Prashant, just taking you back one-year, same time last year, we had taken a similar decision, because that's when the COVID started initially, and we had decided to not give guidance for FY21. But having said that, sometime during the middle of the year, when it was clearer on how the picture would emerge, we gave guidance for FY21. So that's primarily the reason why we have deferred guidance as of now, Prashant.

Michael Holland: I would underscore the fact that we deferred guidance a year ago by six months or a mid-year and at the end of this year, we delivered on that guidance. So, we can see quite well six months out in our business as we've explained before because of the six-month lease termination notices. We are simply being prudent. This second wave has come in very quickly. I think all of us are looking at it and wondering how quickly we will get back on the very positive trajectory we were on. So, it's important to us that we deliver on guidance as we did last year. We've given you a number of areas and framework that I think you'd be able to get a fairly good picture. And we will keep updating you as best we can every quarter.

Prashant Kothari: If you can provide at least minimum guidance on per unit of business at least at the floor in terms of executions?

Vikaash Khdloya: What we do is we take your feedback, we will revisit in next quarter and based on how the situation looking at that point in time, we will consider providing a guidance. As of now we just have deferred it, but we take your feedback, we just want to get a little more color and comfort on the trajectory of the second wave.

Prashant Kothari: You have about a million square feet coming up as an expiry in FY22 given mix of clients and given the market conditions. Is there a risk that all of that will remain unoccupied after a year?

Michael Holland: Prashant, thank you for that. Look, I think the reality of our business is these lease expiring can be a great opportunity. We mentioned the fact that Manyata as a whole has approximately 50% mark-to-market. Actually, some of those leases are even higher than that potentially mark-to-market. And so, if a lease were to expire and a tenant was not to renew, yes, there would be a void period. But also, we would be able to secure a very significant market uptick on rentals, which of course would then progress for another 5-10, perhaps 15 years.

Prashant Kothari: I see the MTM potential about 30% in our portfolio, but when I look at the spreads on the renewal or re-leasing side, they are less than 20%. How do I understand this gap?

Michael Holland: Let me explain. So, as I understand the question is overall at the portfolio level mark-to-market 29%-odd per cent, and we're talking about a 50% plus in some markets and then I think last year, maybe 14% mark-to-market. The issue is that the aggregated number is that 29% across the portfolio with 190-plus leases that we have. Different properties, different lessees have different lease terms, different rates, and therefore, the actual achieved mark-to-market is very specific to individual leases. But I think if you see our historic numbers, we've consistently been able to deliver on mark-to-market, although it can be quite volatile, depending on which leases come up. Actually, what we're highlighting is we've got a great opportunity this year and next with our mark-to-market, which is above the overall portfolio average at 44% and 47%. I hope that clarifies.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Michael Holland, CEO, Embassy REIT for closing comments.

Michael Holland: Great. Well, ladies and gentlemen, thank you so much for joining us on today's call for the great questions. For us the last year represents a really great result in a challenging year that it shows that the business is resilient that we're well positioned for further growth, backed by the strong balance sheet, strong occupier relationships and first-class committed on the ground teams that we must acknowledge and thank even in these difficult times, working to keep the business ticking over and we again, we sincerely send our best wishes to each one of you and hopefully you are well and safe and that your family is also. So, thank you for your interest in the REIT and for your time today. Each one of you, good evening.

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

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