11 November 2019

Embassy REIT

2Q FY2020 Earnings Call

CORPORATE PARTICIPANTS

Michael Holland

Chief Executive Officer (CEO), Embassy REIT

Vikaash Khdloya

Deputy CEO & Chief Operations Officer (COO), Embassy REIT

Aravind Maiya

Deputy CFO, Embassy REIT

Ritwik Bhattacharjee

Head-Investor Relations, Embassy REIT

....

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good day and welcome to the Embassy Office Parks REIT Q2 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritwik Bhattacharjee – Head of Investor Relations at Embassy REIT. Thank you and over to you, sir.

....

Ritwik Bhattacharjee

Head – Investor Relations, Embassy REIT

Thank you Rayomand and good evening everyone. Welcome to the second quarter FY2020 Earnings call for Embassy REIT.

A short while ago, Embassy REIT released its financial results for the Quarter ending September 30, 2019. You can find the reviewed financial statements, an investor presentation discussing our performance, and a supplemental financial and operating databook on the Investor Relations section of our Website at http://ir.embassyofficeparks.com. In particular, we've published the databook to give the financial community a closer look at the metrics we consider important to our business. We're also pleased to tell you that in late September, Embassy REIT was included in the FTSE Russell Global Series of Equity Indices.

Before we begin, we'd 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.

Joining me on the call today are Mike Holland, the CEO, Vikaash Khdloya, the Deputy CEO and COO, and Aravind Maiya, our Deputy CFO. Mike will begin by giving you our second quarter highlights. He will also provide some thoughts on the underlying business fundamentals and the near-term strategy. Vikaash will provide an overview of the business updates for the quarter covering leasing, operating and development performance. And Aravind will run through the financial updates. We will then open the call up to Q&A.

Over to you, Mike.

....

Michael Holland

Chief Executive Officer (CEO), Embassy REIT

Thank you, Ritwik.

Good evening - thank you for joining the call.

It's been another strong quarter. Macro trends remain favorable, demand in our key markets continues to be solid, and we continue to successfully execute on our revenue, NOI and earnings growth plan. Highlights for the quarter include 595k sf in leasing at an average mark-to-market spread of 95% on 317k sf re-leased; and revenue and NOI growth of 15% and 16% year-on-year, respectively. This positive execution is reflected in our unit price performance since IPO.

We continuously monitor business and market conditions and notwithstanding uneven news flow on the international and domestic stage, the fundamentals of our business, and that of the India office sector continue to remain robust.

International companies based in India continue to hire highly educated, highly skilled, technologically oriented employees at a reasonable cost and this continues to drive the consistent demand for Indian office. Our properties cater primarily to global companies who undertake sophisticated services – in technology, e-commerce, R&D, fintech, analytics, artificial intelligence, aerospace, digital transformation, and so on either for their own global businesses or for their global customers. The demand for STEM talent to serve these corporations, and hence demand for commercial office buildings, is not materially impacted by recent short-term market and global trade fluctuations.

The key appeal of our business, strong office sector demand, remains robust and our portfolio data, and broader market data, underlines this fact. Latest market reports by leading property consultants confirm our sentiment - absorption increased by more than 30% YoY, crossing 47 msf sf during the first three quarters of calendar year 2019.

In fact, all cities witnessed a rise in space take-up during 2019 YTD. Led by Bengaluru which is our core market and with c.61% of our assets by value, overall leasing activity in 2019 is expected to surpass the previous peak of 2018. We are well positioned to cater to this demand for Indian office and we continue to see this demand translate into new leases in our portfolio – we've leased close to 1.2 msf for the first 2 quarters of this fiscal year.

On the supply side, the market continues to consolidate towards fewer, larger and institutional quality landlords and the recent NBFC crisis and consequent liquidity squeeze has only reinforced this trend, to the benefit of our business. The potential supply slippages arising from liquidity challenges, coupled with our low vacancy and solid demand, may indeed further propel rental growth in the short to medium term.

Our Q2 numbers which Aravind will cover once again illustrate the appeal of the underlying business of Embassy REIT - high quality office properties, leased to largely international corporations under long term contracts, with pre-defined rental escalations, consistent mark-to-market on new leases and our low risk, on campus development, all coming together to generate predictable, sustainable and growing cashflows. Given these multiple growth levers, we have had another strong quarter and we will be distributing Rs.4,630 mn to Unitholders for the second quarter.

Earlier today, we have received a ROFO notice from the Embassy Sponsor, certain subsidiaries of the Embassy Sponsor and other shareholders inviting an offer from the REIT in relation to the Embassy TechVillage asset located in Bengaluru. We will evaluate the opportunity under the ROFO framework and applicable law. Given that Embassy TechVillage is a Sponsor asset, the REIT will be guided by relevant regulations in relation to Related Party Transactions in the best interests of all our Unitholders.

Our energetic 70+ person management team remain focussed on execution of business strategy and total return priority. In the immediate term, there are several areas where we are ahead of business plan and a couple of areas of challenge which will take more time and require additional focus to deliver to our Unitholders. My colleague Vikaash will expand on our business and operational performance after which Aravind will provide details of our second quarter financial performance.

Over to you, Vikaash.

Vikaash Khdloya

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

Thanks, Mike. Good evening, everybody.

We've had another strong quarter of performance. Business highlights for this quarter include:

- New lease-up of 595k sf with a strong forward pipeline in excess of 500k sf;
- c.23% pre-commitments for our 1.4 msf near-term office developments in addition to c.400k sf strong pre-leasing pipeline; and
- Both these 2 near-term development projects continue to track 2 quarters ahead of targeted delivery

Our 165 and growing occupier base across established and growth sectors remain core to our business strategy. Today, we derive 80% of our revenues from global companies comprising many prominent Fortune 500 corporations. And we continue to strengthen our portfolio by actively diversifying our tenant base.

More details on Leasing:

Last quarter, we reported 500k sf of leasing pipeline - we're pleased to report this pipeline has been converted to an actual lease execution of 595k sf in Q2 with healthy traction across all our 4 markets. By way of an illustration, a leading global technology company expanded with us in Q2 at our FIFC asset in Mumbai BKC micro-market, demonstrating continued appetite for well-located high-quality assets.

- Our portfolio occupancy increased YoY by 100 bps to 94.7% compared to previous year and we have now leased 1.2 msf YTD. We also achieved a 67% mark-to-market spread on c.0.9 msf re-leased YTD. Given overall market rents are 30% above our in-place rents for the portfolio, we continue to view expiries and tenant churn as an opportunity to enhance net operating income.
- We added another European Consulate to our tenant roster – this time in the office tower of our Embassy One asset, a premium integrated project in Bengaluru with the Four Seasons hotel adjacent to the office tower. We have positioned the office tower for smaller scale, high quality tenants and have been selective on its lease-up in terms of pricing. While this has resulted in slower than targeted ramp-up in the immediate term, we believe that our patient approach will deliver as part of our focus on long term value creation.
- Looking forward, and similar to last quarter, our near-term leasing pipeline continues to be encouraging at over 500k sf with business growth and the consequent space requirements being a consistent theme during occupier discussions.

So, as you can see, the leasing side of our business continues to be strong.

Some details on our on-campus development:

We have 3.3 msf on-campus development currently under various stages of design and construction.

- Our combined 1.4 msf near term delivery projects at Embassy Manyata and Embassy Oxygen continue to progress 2 quarters ahead of schedule;

- c.23% of our 1.4 msf near-term deliveries is already pre-committed, and we have healthy occupier interest for a further c.400k sf; and

- In addition to the near-term delivery projects, we have an additional 1.9 msf office space under various stages of design, excavation and pre-construction as part of our low risk on-campus development strategy.

The impressive leasing traction for our projects even prior to completion and at rents which are at a premium to market validates our strategy in relation to new development.

Active asset management is a core philosophy for each of us at Embassy REIT

We are continuously focused on enhancing our competitive advantage as part of our "total business ecosystem" philosophy – whether by way of investing in ancillary amenities such as hotels and conferencing facilities, or by undertaking select infrastructure and upgrade projects and so on. Our scale allows us to invest in both our properties as well as our teams - with focus on long term value creation to our Unitholders.

- Turning to hotels which represent 5% of our portfolio, the construction of the 619 rooms Hilton and Hilton Garden Inn at Embassy Manyata continued apace and on track for launch in FY2022. Our recently launched 230 room Four Seasons hotel at Embassy One is ramping up though Q2 occupancy at 10% is behind target. Our operator, Four Seasons, has to-date signed over 100 corporate accounts and target is to ramp up and achieve break even occupancy over the next 2-3 quarters. Our stabilized hotel, the Hilton at Embassy Golflinks continues its strong performance, with 72% occupancy for this quarter and RevPar up 9.6% YoY.

- Our multiple infrastructure and amenity upgrades, including the construction of a new flyover and masterplan upgrade at Embassy Manyata, continue to be on track.

    - At Express Towers in Mumbai, we received a key approval in relation to conversion of the asset from leasehold to freehold land upon payment of conversion premium under the recently notified regulations. Being one of the foremost assets to achieve this in the supply constrained micro-market of South Mumbai will further enhance the building's unique positioning as a landmark business hub.

To sum up, the leasing side of our business continues to be in great shape, we are ahead of timelines on our development programme and we continue to be active asset managers across all our properties.

Over to Aravind now for the financial updates.

....

Aravind Maiya

Dy CFO, Embassy REIT

Thanks, Vikaash. Good evening, everybody.

I am pleased to mention that we have delivered another strong quarter of financial performance:

- Our Revenue from Operations has increased by 15% YoY to Rs.5,206 mn, mainly driven by continued leasing momentum across the portfolio;
- Net Operating Income (NOI) has increased by 16% YoY to Rs. 4,384 mn with NOI margin for the quarter at 84%; and
- Our second quarter distribution stands at Rs. 4,630 mn which translates to a DPU of Rs. 6 per unit for this quarter. With this, our cumulative distributions for the half year ended 30 September 2019 totals to Rs.8,797 mn which is Rs 11.4 per unit

Income Statement Updates

Now let me share the Income Statement updates for this quarter in a little more detail including key drivers of our operating profit:

A. Revenue from Operations

- Our Revenue from Operations for second quarter was up Rs.682 mn or 15% YoY. This is mainly on account of lease-up of about 1.7 msf vacancy mainly across Embassy Manyata, FIFC and Embassy 247 properties and revenues from newly delivered properties;
- Overall, our commercial office segment contributed 88% of operating revenue during the second quarter underlining our focus as a commercial office REIT;
- In terms of revenue drivers for the quarter, vacancy lease-up and renewals contributed 28% of the YoY increase while lease escalations and other contracted revenue contributed 21% and the balance increase coming from new development and other areas. While new building completions contributed a smaller proportion to the revenue increase, that proportion may increase in FY2021 given early completion of our 1.4 msf on-campus development.

B. Net Operating Income and EBIDTA

- Coming to our Net Operating Income, second quarter NOI was up Rs.616 mn or 16% YoY, in-line with increase in our Revenue from Operations. NOI margin for Q2 was largely consistent with Q1 at 84%;
- Our EBITDA for the second quarter was up 12% at Rs.441 mn YoY and the EBIDTA margin stood at 81%. As I mentioned last quarter, our scale as well as our low manager fees help us achieve such healthy NOI and EBIDTA margins;
- Our net profit after tax stood at Rs. 2,322 mn representing an earnings per unit of Rs 3.01 for the quarter.

Balance Sheet Updates

Next, let me now share the Balance Sheet updates for this quarter:

- Our total assets as at 30 September, 2019 stood at Rs.325 bn. Of this, 85% is represented by the Investment Properties we own across all SPVs along with related goodwill accounted on acquisition and 7% is represented by our investment in Embassy Golflinks;

- We also undertook fair valuation of our properties for half-year ended 30 September, 2019 through an independent valuer in accordance with the REIT regulations. The Gross Asset Value was assessed at Rs.321 bn by the independent valuer and taking into account other assets and liabilities at their respective book values, the Net Asset Value as at 30 September stood at Rs.289 bn, translating into a NAV of Rs.375 per Unit, a 4% increase over the NAV per unit estimate as at March 31st, 2019;
- We had an aggregate borrowing of Rs.42 bn as at 30 September, 2019 with an average cost of debt of c.9.9%. We continue to maintain a conservative Balance Sheet with Net Debt to TEV of 11% and Net Debt to EBIDTA of 2.3x, thereby providing significant flexibility for future growth. Should new accretive investment opportunities emerge, we have the capacity to take advantage with up to 49% regulatory debt threshold – that's an additional proforma debt capacity of Rs.117 bn, assuming current asset base and constant property values. We will use the optimal blend of debt and equity given prevailing market conditions for any future acquisition and we will maintain our capital allocation discipline;
- In the current market scenario, there is a flight to quality by most lenders which helps us access debt at attractive terms. During the quarter, we raised Rs.3.4 bn (which includes undrawn amounts) at an attractive interest rate of c.8.9% to fund ongoing capex needs. Further, we are in active discussions with several banks and financial institutions to conclude our funding for the ongoing capex requirements; we expect to conclude binding loan agreements and commence drawdown of funds before end of this year.

Distributions

Lastly, I'll touch upon our distributions for second quarter. Our Net Distributable Cash Flow at REIT level for this quarter stood at Rs.4,661 mn. The Board of Directors in their meeting held earlier today declared a quarterly distribution totaling Rs.4,630 mn or Rs.6 per unit, representing a distribution payout ratio of 99.3% for this quarter. Of Rs.6 DPU for this quarter, Rs.2.7 per unit is towards interest receipts, Rs.0.14 per unit is towards dividends received from SPVs and the balance Rs.3.16 per unit is towards amortization of SPV level debt. The record date for the distribution is November 19, 2019 and the distribution will be paid on or before November 26, 2019.

To sum up, we had a strong quarter of financial performance.

I now hand it back to Mike for his concluding remarks.

....

Michael Holland

Chief Executive Officer (CEO), Embassy REIT

Thanks Aravind.

I trust that Aravind's report on the financials and Vikaash's account of the business and operations have demonstrated to you that we continue to deliver on the key metrics for the business in Q2.

So, for the balance of FY2020, our key focus areas are:

- Continue to source and convert our leasing pipeline into concluded leases, building on the 1.2 msf leased YTD;
- Continue with delivery of near-term development pipeline and drive for early delivery and leasing;
- Continue to focus on our asset management priorities – lease-up of Embassy One office tower, and accelerate the ramp up of Four Seasons hotel; and
- Pursue acquisition targets in a disciplined manner, both organic from within the Sponsor ROFO pipeline as well as external opportunities.

In respect of all of the above, our teams remain focused on driving the best outcomes for all our Unitholders.

The business continues to be in good shape, we have consistent lease up arising from continuing corporate demand and balanced comparable supply. Our total business ecosystem offering remains that which is most efficient and preferred by the best tenants in our core Indian markets. We continue to deliver mark-to-market on new leases and we're ahead of schedule with respect to addition of new premises in NTM. At mid-year, we have an H1 performance of Revenue and NOI up by 17% and 18% respectively, and total distributions for these two quarters at Rs.8,797 mn; and with a YTD total return of c.38%, it's been another strong quarter for Embassy REIT.

Thanks - and over to questions.

QUESTION AND ANSWER SECTION

Moderator: Sure. Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Tanuj Makhija from Bank of America. Please go ahead.

Tanuj Makhija: Hi, thanks for taking my question. My first question is on Embassy TechVillage. If I recall correctly, the total area at Embassy TechVillage was 12 million square feet plus. Can you please explain the 6.2 million square feet operational area? And which part of the under construction area is part of ROFO assets? Is this the part of portfolio which is currently being pre-leased to JP Morgan?

Vikaash Khdloya: Hi, Tanuj. This is Vikaash here. So, as we disclosed earlier today to the stock exchange as well as the press release, based on the invitation to offer which we have received. The total area that has been offered is 6.2 million square feet of the completed office prices and approximately 2.5 million square feet of under construction, mixed use development. This excludes the approximately 20 acres of land which is currently either under development or post development from the sponsor. So, to answer your question, the 2.5 million square feet under construction, we believe does not include the JP Morgan pre-lease. However, again, as we have just received the notice today, we will commence our evaluation of the opportunity and we will come back to you in due course with more detail.

Tanuj Makhija: Sure. And Vikaash can you give us some financial details about Embassy TechVillage as to what is the current revenue from the operating assets?

Vikaash Khdloya: So Tanuj, given that we have just received the notice, at this point, apart from what we have already made the disclosures, we will not be able to offer any additional comments. However, we are familiar with the asset. It is a large scale asset with global tenants and approximately 6.2 million square feet is completed and operational and it has further development potential. We will now be focused on a detailed evaluation of the opportunity and we will continue to be guided by the relevant regulations in relation to the relative party transactions in interest of all our unitholder.

Tanuj Makhija: Okay, got it. And last thing on the Embassy TechVillage. If I look at Slide #02 of the presentation, one of the comments actually says that, our development program is progressing ahead of schedule and we are well capitalized to fund future inorganic growth opportunities. So can you elaborate a bit more on this front as to how do you plan to fund inorganic growth opportunities? And why do you say we are well capitalized?

Aravind Maiya: So this is Aravind here. Basically, I will answer a part of the question in relation to the well capitalized portion. So as I mentioned, our current net debt to TEV is approximately 11 times, which gives us enough headroom to go all the way up to 49%. Of course, more than 25% requires unit holder approval. In terms of financing the deal between equity and debt, I think that is something which we will evaluate in more detail as we get into details of the asset. And at this stage probably we will not be able to comment fully on how exactly we will fund this ROFO asset.

Mike Holland: I think, just a small correction, you said 11 times, I think you meant it is 11%.

Aravind Maiya: 11%, sorry.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek: Yes, good evening, guys. Congrats on very healthy results. Continuing from the previous question, the ETV, while I read the ROFO guidelines, what is given in the IPO document, could you give some kind of indicative timeline around which you expect to move ahead on this, should you decide to buy it?

Vikaash Khdloya: Hi, Abhishek, this is Vikaash here. So Abhishek, again, as you refer to the final offer document we have laid down, it has laid down detailed timelines of if ROFO asset is offered, what is the process that is contemplated to be followed. So we will kind of guide you to the final offer document. And at this stage, we do not have any further comments on the process and timeline.

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

Kunal Lakhan: Hi, good evening. Just on your Slide #40 of the of the investor materials, the NDCF at SPV level is actually lower than the distribution from SPVs to the REIT.

Can you just help me reconcile this?

Aravind Maiya: Sure. Just to answer that, this is Aravind here. The NDCF at SPV level is different from NDCF at REIT level, largely because of two reasons. One, we get direct cash flows into the REIT because of our investment in the associate entity, Golf Links, in the form of debentures, and secondly, it is the treasury income we make at the REIT level. Largely, these are the two reasons which contribute to that difference.

Kunal Lakhan: So that difference would amount to roughly about Rs. 30 odd crores, you are saying Rs. 30 crores - Rs. 35 crores on a quarterly basis?

Aravind Maiya: It is approximately about, more closer to Rs. 40 crores.

Kunal Lakhan: No, so there is another line item called distribution from Embassy Golf Links. I believe this is dividend distribution, right? This is not the distribution on the debt investments?

Aravind Maiya: So distribution from Embassy Golf Links is largely in relation to the return on the debentures which we have invested in Embassy Golf Links.

Kunal Lakhan: That is exactly what you said earlier, right?. No, what I'm trying to say is that if you look at the Slide #40, right, the NDCF at SPV level and distribution from SPVs to REIT that difference, itself is almost Rs. 45 crores, yes.

Aravind Maiya: Understood. So, just to explain that. Largely two - three reasons. One, I would say that it's a timing issue. One if you look at it from-half yearly basis, the distribution attendees, NDCF at SPV level and distribution from SPV to REIT, if you see is largely aligned. But if you look at it on a quarter-on-quarter basis, it is a little different, mainly because NDCF is the cash, which has been actually paid up to the REIT for end of the quarter. So what happens is there is a bit of time lag between the NDCF at REIT and when it is moved up to the REIT level because of dividend distribution. So that is primarily the contributor to this difference on a quarterly basis. But again, to reiterate, if you look at on a half-year basis, this NDCF at SPV level and the distribution is largely the same.

Kunal Lakhan: Sure that is helpful. But would it, would that mean that there could be a quarter or maybe like in Q3, distribution from SPVs to REIT would be lower than NDCF at the SPV level? Would that reverse?

Vikaash Khdloya: So Kunal, hi, Vikaash here. So every quarter it depends on the specifics, what we would want to guide you towards is the cumulative number we put out for each year-to-date up for each quarter earnings presentation. So it is difficult to comment specifically today on what may happen in Q3.

Kunal Lakhani: Sure sure, No worries. Alright. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Thanks and good evening everyone. Sir, first question is what are the kind of EBITDA level losses that you incurred at Four Seasons in Q2?

Aravind Maiya: Just give us a moment, we will just tell you the number. Okay, the EBITDA level loss for Q2 from Four Seasons is approximately about Rs. 67 million.

Sameer Baisiwala: Okay, great. And this is what you said that in three to four quarters you expect to breakeven?

Aravind Maiya: That is correct, Sameer.

Sameer Baisiwala: Okay. And second question is out of your Rs. 42 billion gross debt, how much of this is zero coupon and how much of this is interest bearing at the moment?

Vikaash Khdloya: So, Sameer, this is Vikaash here. If I could guide you to slide number #18 of our supplementary data book. So the NCD, the bond which you are referring to is approximately Rs. 3,000 crores and the balance comprises of construction finance, term loans, etc. at each of the SPV level. So if you just see the Slide #18, you would get more details on that in the supplementary data book.

Sameer Baisiwala: Okay, great. I will take a look at that, and any plans to do a higher zero coupon bond?

Vikaash Khdloya: So Sameer again as we previously mentioned on our philosophy on the bond itself, as of now, we are focused on the business itself. As and when the need arises for financing we will take a call again. We do have a tranche 2of approximately 650 crores which we could at any point in time raise through the existing envisaged bond. So that is an option available to us apart from the fact that we continue to avail construction financing at each of the SPV levels. So as of now we do not have any further plans, but it depends upon the business requirements.

Sameer Baisiwala: Ok. And sir, the third question here is on the collapsing of Two-Tier structure especially Embassy Manyata. What is the progress over here?

Aravind Maiya: Aravind here.So we are progressing pretty well on that. We have kind of looked at and largely finalized a structure on how we want to collapse it and we stick to the timeline which we gave last quarter on an overall basis which is approximately about 18 months to collapse the structure.

Vikaash Khdloya: Sameer, we will make necessary announcement as and when we do take firm steps on that. You should hear something in the next quarter or so.

Moderator: Thank you very much. We take the next question from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Hi, thanks for the opportunity. Mike, firstly on the receipt of ROFO notice from the Embassy sponsor, can you help us understand the current tenant profile at Embassy TechVillage at Outer Ring Road in terms of the sector and the current occupancy levels, etc.? And adjacent to this, we understand that Wells Fargo is looking to double its office space in India and may need 0.8 million square feet space in Bengaluru, and may in fact, sign a 20-year-deal regarding this. Given that we have already leased out 850,000 square feet at Embassy TechVillage are they in active talks with these sponsor group to further enhance their leased office space at ETV?

Mike Holland: As you are aware we receive that ROFO notice this morning. It is preliminary. We will do homework in due diligence over the next month or so. We are broadly familiar with the asset. It is in the heart of the technology corridor in Bengaluru, it would not be appropriate for us to comment on the specifics of tenants there, but it is well known in the market that it is a high-quality asset.

Karan Khanna: Sure. And then secondly with Cognizant announcing that they are looking to layoff around 5,000-6,000 employees globally. I understand this is a small number, but do you believe that this could lead to any premature expiry of leases at any of your office parks since Cognizant is one of the large tenants? Or is it fair to assume that this is not a material development for the REIT and also is it possible to know the exposure to Cognizant in terms of headcount instead of just lease-rental exposure?

Mike Holland: Yeah so, thanks for the question. Cognizant is one of our top ten tenants and has been for a number of years. I believe that they represent approximately 10% of our overall revenue base. The concentration in our top two tenants actually has been reducing over a number of years as we grow the number of tenants and the scale of our portfolio. You will be aware that what is happening in the market is that these types of companies are moving towards higher skill and more sophisticated services and that has been reported by those sort of companies in their quarterly report, particularly moving towards digital and automation type of services. Actually, I think that what one needs to look at is the net headcount additions of these types of companies and if you take an example of the leading companies in this industry, they continue to grow, hiring activity continues to grow at between 19% and 33% in the month of September. All of the premises in the portfolio where Cognizant are occupying are at full occupancy. And given the fact that some of the tenants are at legacy market rentals, if they were to leave, if a tenant was to leave, we continue to have that opportunity for our mark-to-market which we have achieved in the past and we believe continues to be an opportunity in the future. We are very positive about our tenants base, existing and potential.

Karan Khanna: Sure. Thanks.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek: Sorry guys, I got disconnected but I’ve got the answer. My second question was on the tax rate. So following this corporate tax rate reduction from 33% to 25%, number one are we adopting it? And number two can you help us understand the MAT credit which is lying on the balance sheet which is unused and what could we expect hence as the tax rate for next one to two years?

Aravind Maiya: Yeah so, Aravind here. Basically, we have evaluated the recent tax cuts and done our evaluation across a portfolio SPVs and we have considered factors like the existing MAT credit, the lower tax rate, etc. So, basis this evaluation we have adopted, you know, lower tax or a lower MAT rate, whatever we believe is in the best interest with respect to SPVs. So our estimate is that cash taxes as a percentage of PBT for this year would reduce by an approximate 4% to 5% as a percentage of PBT.

Abhishek: Yeah, thanks.

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

Tanuj Makhija: Hi. Firstly, just a few data point related questions. If you look at your occupancy levels have actually increased sequentially in second quarter versus Q1 FY20. Yet, if I look at your facility rentals, they have declined sequentially in Q2 versus Q1. So could you explain why our rental income has declined sequentially?

Aravind Maiya: Sure, thanks. Aravind here again. So to start off, honestly, we don't really manage business on a quarter-on-quarter basis. But having said that, there will be churn in the portfolio which can cause these quarterly fluctuations due to rental downtime, etc. Last quarter, we did mention that we had a reasonably large tenant who vacated space which gave us certain surrender premium, so this has kind of been offset by higher rental income with the MTM spreads for all the re-leasing which we have done over Q1 and Q2. So primarily, this is the reason for the dip in base rent in Q2 versus Q1**.**

Mike Holland: Mike here. Can I give two examples around that, if you recollect, in Pune we had a large tenant vacate that end of last calendar year they gave us notice, that was 480,000 square feet and you will recollect that given the strong state of the market we were able to re-lease with a very significant mark-to-market within three months' period. So, no loss of rental downtimethere. We have got another building at Embassy Golf Links which today a tenant has moved out. It is being fitted out by a new tenant about 220,000 square feet. That one has got a mark-to-market that is over 200%. So there will be short-term void as one legacy tenants moves out, a new tenant moves in or multiple tenants in that example that we gave before in Pune, we had said that 75% has been leased and we are now confident that the balance 25% of that which is a 1,20,000 square feet, we have got a very, very strong pipeline for that balance so I suspect we will be reporting more positive news on that front. But you do have voids come up. We achieved the mark-to-market and you see that uptick in rental income one or two quarters later.

Tanuj Makhija: Okay, thanks Mike. It was very helpful. And just one more question from my end regarding Embassy ONE. The take up of office space at Embassy ONE has been a bit subdued. So if I can ask you Mike, as per you what has been reason for subdued offtake at Embassy ONE. Part one and secondly, if you could give some outlook regarding the potential tenant pipeline for Embassy ONE?

Mike Holland: First off, Embassy ONE is really a top quality office asset. It is a relatively small part of our overall portfolio, less than 2% by value. But it is a real high-grade asset targeted at front office, sophisticated tenants that might be in the banking, investment, private equity, consulting, diplomatic type of sectors. So in some respects, not dissimilar to the tenant base that we have at somewhere like Express Towers. We are pleased that we have signed off on the second deal at those premises with a European Consulate at super rentals, rentals in line or slightly ahead of projections and we will continue to hold out for those types of rentals. We do have a pipeline of three or four potential deals on that totaling somewhere in the order of 40,000 square feet. It will take time to lease up that portfolio, 12 to 18 months to become fully-stabilized. But if you see that asset, you will realize that the integrated development at Embassy ONE really is one of a kind in Bengaluru. It is strategically located, and we are confident that in the medium term, this is going to be a great asset.

Tanuj Makhija: Got it. Thanks, that's very helpful.

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

Pulkit Patni: Hey. Thanks a lot for taking my question. My first question is on Express Towers where you mentioned that there could be a premium to be paid for conversion from leasehold to freeholds. Can you please highlight what that number could be?

Vikaash Khdloya: Sure, Pulkit. That number is in the region of 90 crore and we would guide you to page number 40 of our financials, where we have included all the details in foot note six to the fixed asset schedule.

Pulkit Patni: And could you also highlight what could be the advantages of, actually how is that conversion done? Would that give us some extra FSI or does it change anything else?

Vikaash Khdloya: So Pulkit, the way we look at it is that this is Express Towers is now one of the foremost properties in Nariman Point to be on freehold and we think this will significantly enhance its positioning to the front office high quality tenant who looks in the space in this micro market. We believe over a period of time this will also reflect in the rental premium that this asset commands.

Pulkit Patni: Understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Hi, thanks for the follow up. Aravind, just want to make sure so the lower tax rate that you mentioned about, so it is about 4% to 5% lower effective tax rate for the year versus what you had guided for the full year in the prospectus?

Aravind Maiya: So Sameer it is effectively a 4% to 5% lower current tax rate. That is the cash tax what I am talking about.

Sameer Baisiwala: So how does it compare with what you had projected in the prospectus and I guess what I am trying to say here is does that lift your full year distribution which was roughly about Rs. 19 billion?

Aravind Maiya: Yeah, it is a good question Sameer. So honestly, on a stabilized basis probably the answer is yes, but for this year which is 2019-20 we do have the tax deducted at source on our revenue, which would not likely change for the rest of the year and hence, this saving might not really reflect in our NDCF. But as I said on a stabilized basis, say for FY2021, yes this will reflect.

Sameer Baisiwala: Okay, great. And sir, the second question is, I mean we can't talk much about the ROFO asset, but I guess what I am trying to ask here is, what would be the guiding principles when you do these type of large acquisitions and second is how do you make it value accretive or the distribution accretive, capital accretive for the unit holders? Because if it accretes for you that means it depletes for the seller doesn't t it?

Mike Holland: Yeah so, Sameer, clearly, we are looking at this in a preliminary way. But we are clearly looking for things to be earnings or yield accretive, both of them matter to us. Ideally, we do not want to see anything negative around the dividend, and want to be dividend accretive, but we will look at things in an overall sense looking for low to mid-teens in terms of overall returns and we will look case by case at each asset for a balance of the two. We are yet to look in detail at the 6.4 million square feet of completed assets.

Sameer Baisiwala: Okay great. Thanks.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mike Holland, CEO - Embassy REIT for closing comments.

Mike Holland: Thank you very much to all the attendees for your time. I trust that our responses to your questions have helped all to understand the nature of our business, our current and future plans and our key business drivers for continued success. Thank you and good evening.

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.

....