Embassy REIT

2Q FY2021 Earnings Call

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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 second 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, operator. Welcome to the second quarter FY2021 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the Quarter and Half Year ended September 30, 2020 a short while back. As is our standard practice, we have placed our quarterly financial statements, earnings presentation discussing our quarterly performance, and a supplemental financial and operating databook on our website at http://ir.embassyofficeparks.com under the Investor Relations section.

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

First, a quick update – in September 2020, we were included in the FTSE EPRA NAREIT Global Emerging Index which is a prominent real estate benchmark for global investors. In addition, effective today, we have been included in the S&P Global Property Index and S&P Global REIT Index. We believe that these inclusions will continue to enhance our trading liquidity, broaden our unitholder register, and deepen the pools of capital that can potentially invest in our REIT.

Joining me on the call today are Michael Holland, the CEO, Vikaash Khdloya, the Deputy CEO and COO, and Aravind Maiya, our CFO. Mike will start off with the second quarter 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. We trust that you all are staying healthy and safe in these unprecedented times.

Today we announced our second quarter FY2021 results. Notwithstanding the challenging external environment, we are pleased to again deliver on our quarterly distributions, a healthy ₹4,244 million for Q2, bringing our total YTD unitholder distributions to ₹8,743 million or ₹11.33 per unit.

Now, let me comment today on 3 key themes:

First, on the pandemic

Throughout Q2, the period from July to September, India witnessed the phased lifting of government mandated lockdown across states although the number of COVID-19 cases continued to increase until a point in mid-September when the number of new cases, and deaths, started a steady decline on a pan India aggregated basis. Today, it is very encouraging to note that three out of four of our markets, including Bengaluru, are reporting this downward trend. State Governments have shown that they are committed to a return to some level of normalcy of economic activity and Central Government has released a set of new guidelines under its Unlock 5.0 plans effective October 1st to kick start the economy with additional relaxations and fewer restrictions. And consequently, the slow but steady return to workplace continues. However, while we see positive indicators in a number of areas, the pandemic retains the ability to surprise.

Second, our occupiers and their industry

An area where clarity shines through in this time of uncertainty – feedback from our occupiers indicates that they are very positive about the future of their businesses in India and that they will continue to grow. Technology companies and Global Captive Centres (GCCs) applying technology based solutions for their overseas businesses are the backbone of Embassy REIT – our occupier base comprises 50% pure technology and 43% Global Captives. Multiple indicators including public results, hiring statistics in India, industry analysis, business leader commentaries and conversations, all underscore the conclusion that these types of business have a very positive future. This is confirmed by NASSCOM research which projects that the Indian technology industry will grow at a CAGR of 13% to $350 billion by 2025.

For many of those businesses, India and the availability of talent at scale will continue to grow in significance for global delivery strategies in our increasingly digitized and technology dependent world.

Third, impact of Work From Home (WFH) in India

After seven months of Work from Home debate, we are seeing an emerging positive consensus which reinforces our initial views – that the Indian working population demographics, and the environments at home are very different from the West, with a high proportion of young people in the early phases of their career, that the desire for a collaborative space at the office to foster culture, learning and innovation is perhaps much greater in India as compared to the West.

While we do expect work policies to incorporate more flexibility in the future, we believe that in the Indian market, the office will continue as the core business hub, perhaps much more so than in the West, providing high quality, lower density spaces with an increased focus on wellness features, ultimately favoring institutional landlords like Embassy REIT.

Compared to Q1, we see a gradual, slow but consistent return to the workplace during last few months. Interestingly, there are significant variations in approach between international and domestic companies.

Many of the former are operating with less than 5% of their employees in office, often due to their globally standardized protocols, while a number of large scale domestic companies are operating with more than 30% of staff in the workplace.

And so, what does this means for the office industry in India

In the short term, we have seen some modest progress on the return of leasing demand with some consultants reporting a QoQ increase of c.8% in pan-India gross absorption, however, gross absorption is down 52% YoY for this quarter. They indicate full calendar year 2020 pan-India gross leasing in the range of 35-40 msf, down c.20-25% against the last five year average gross absorption. However, given the technology and GCC occupier base, the India office structural story is intact – international property consultants expect demand to revive in 2021 with forecast office demand of c.45 msf, c.20% higher than CY2020 and in-line with the 5-year average.

While we have secured a number of leases totaling 210k sf in Q2, which Vikaash will update shortly, it is clear that the “pause, assess, accelerate” in decision making for corporate leasing will move past the assessment stage once occupiers have substantively moved back to the offices. Our view is that demand will return strongly in a couple of quarters given robust performances posted recently by technology and tech-dependent sectors, which is the core occupier base for India office.

Sector outlook in the medium term

On the supply front, the market supply forecast for the next 2 years has continued to decline since the beginning of this year – from 122 msf in January 2020 to 87 msf in September 2020, implying a decline of 29%. Due to the continued pressures related to availability of labor, funding and liquidity, we may see further shrinkage in this number by the end of the year. Our assessment of the actual comparable and competing supply for Embassy REIT is even lower.

With limited upcoming supply, already low vacancy rates in our key markets and further de-densification plans by corporates, we expect rentals to hold firm in our core markets of Bengaluru and Pune.

The recent result announcements from many technology companies have outlined the strong pipeline of deals, significant pull forward in expenditure on digital transformation and cloud migration and an uptick in hiring by these corporates. Some corporates have indicated that COVID-19 has essentially halved the timeline for digital transformation, bringing it forward by atleast five years. We also expect increased offshoring, to Global Captives as well as third party service providers, in a recessionary and geographically agnostic world – the aftershock bounce back driving office demand as India experienced post the GFC.

Looking to the longer term, we noted the detailed global research report from Cushman & Wakefield which projects 700 msf of office demand to 2030 in APAC excluding China, with 60% being driven by India, and the methodology and conclusions of that report underscore the continuation of the growth of the India office sector over the next decade as often articulated to us by many of our occupiers. The significant skills and cost advantage that India offers, both in terms of workforce as well as real estate costs, will continue to drive global occupiers to India office.

On potential acquisitions, we are evaluating the Embassy TechVillage ROFO opportunity, and are monitoring external market conditions. Other acquisition opportunities in the market, which match our previously articulated acquisitions criteria, are also being examined. We will update at the appropriate time.

I will now handover to Vikaash to discuss in detail our business and operating performance for Q2.

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Vikaash Khdloya

Dy CEO and Chief Operations Officer (COO)

Thanks, Mike. Good evening, everybody.

Further to the operational update for Q2 that we provided a month back, business highlights for this quarter include:

- Continued support to our occupiers as they re-populate their offices, including launch of #OfficeAgain campaign and recent global health and safety certifications;
- New leases and renewals signed for Q2 stood at 210k sf across seven deals, including 124k sf of new leases at 10% above market rents and 86k sf renewals at 7% spreads to existing rents;
- Portfolio occupancy at 91.7% on our 26.2 msf operating portfolio, with same-store occupancy of 93.4%;
- The acquisition of property maintenance operations for 20.3 msf existing REIT properties for ₹4.74 billion to further enhance service delivery to occupiers.

Let me take you through the details.

First, an update on our operations and COVID-19 response

We remain closely engaged with our occupiers to facilitate employee safety and business continuity. All our properties across India remained open and operational throughout the quarter. We continue to see a gradual, slow but consistent ramp-up in the number of occupiers re-populating our buildings. Over 95% of our occupiers and a weekday average of over 16,600 employees operated from our properties in October, compared to a weekday average 8,500 employees operating from our properties during Q1.

Safety of employees working from our properties remains our highest priority. We continue to keep our buildings safe and secure with international-standard health and sanitization procedures and technology driven solutions. Additionally, during the quarter, we received health, safety and ESG assurance certifications from globally renowned institutions, such as the British Safety Council and British Standards Institution, endorsing the quality and effectiveness of the wellness practices adopted by us and our efforts in controlling the spread of COVID-19 across our pan India office portfolio.

We continue to support our occupiers in their ‘Return to Workplace’ efforts. We launched the #OfficeAgain campaign to engage and update occupiers and their employees on various health and safety initiatives and build confidence as they re-populate their workspaces. Employee feedback and response to our campaign has been very positive as they look forward to returning to workplace.

Above initiatives combined with the quality of our occupier base and proactive engagement by our on-ground teams contributed to continuing strong rental collections from our occupiers. As of date, we have collected 99.5% of our Q2 rentals and 99.7% of our Q1 rentals from office occupiers.

Moving to our leasing and lease management initiatives

During Q2, we maintained a healthy portfolio occupancy of 91.7% on our 26.2 msf operating portfolio, with same-store occupancy at 93.4%. The portfolio occupancy declined marginally by 50 bps compared to Q1 but was in-line with expansion in vacancy rates across our key markets.

Of our 7.1 msf leases due for escalations during the course of FY2021, we achieved 11% rental increases on 1.9 msf across 18 office leases during Q2, delivering YTD rental increases of 12% on 3.7 msf across 40 office leases. We remain confident to achieve 13% rental increase on the remaining 3.4 msf leases due for revision during the remainder of this financial year given that these leases are already 30% below market. Our healthy occupancy, robust collections and successful rental increases therefore form the base of our NOI and distributions.

As expected, the leasing activity remained muted this quarter. Despite this, we signed a total of 7 leases totaling 210k sf during the quarter, comprising both new leases and renewal of ultimate expiries. This includes 3 new leases totaling 124k sf area concluded at 10% above market rents to corporates from technology, telecom and manufacturing sectors and renewal of 4 ultimate lease expiries totaling 86k sf at 7% renewal spread to existing rents. Given the travel restrictions, we also launched virtual property tours of our buildings to facilitate inspections by our existing and prospective occupiers and are seeing early signs of pickup in deal activity with a current pipeline of 265k sf.

Moving to expiries. Of the 1.9 msf due for expiry in FY2021, we have successfully backfilled or renewed 529k sf or 28% of expiries at 13% MTM spread on a YTD basis – of this, 129k sf was backfilled or renewed during Q2 at 6% MTM spread. An additional 148k sf or 10% of expiries are likely renewals and discussions remain on track. As discussed during our previous call, the remaining 1.2 msf expiries, contributing to 5.6% of our annualized rents, are likely exits during the course of this financial year – of this, 0.4 msf relates to occupiers facing COVID-19 headwinds and cost pressures and the balance 0.8 msf is part of normal occupier churn. These include instances of occupiers relocating to a different micro-market, consolidating to self-owned or another property, rebalancing existing portfolios and undertaking portfolio housekeeping. Though we have backfilled approximately 1 msf annually over the last four years, the backfill of likely exits in FY21 totaling 1.2 msf may take some time given the overall pause in decision making.

While corporates remain cautious and continue to delay major leasing decisions, we are seeing early signs of recovery and pick-up in deal activity with resumption of new lease enquiries and multiple large RFPs in the market. As Mike mentioned earlier, we are seeing strong performances and hiring ramp-up by technology companies and Global Captives who continue to be the primary absorption drivers for India office. More importantly, as corporates continue to bring back employees to workplaces and ramp-up numbers, the need for additional space to take into account social distancing and wellness norms will prompt leasing activity to considerably pick up. Our most recent discussions with both large occupiers as well as property consultants have revolved around large occupiers taking a long-term view on their space needs given low existing supply, especially in our core markets of Bengaluru and Pune. We remain confident of the medium-term demand prospects and the ability and strength of our portfolio to deliver on the same.

Our on-campus development projects have witnessed steady ramp-up

During the quarter, construction continued across our 2.7 msf ongoing on-campus development projects with steady increase in site activity. With all appropriate health and safety precautions at work sites, the labor ramp-up has been encouraging at 85% of pre-COVID peak capacity. Given these development projects are due for delivery beginning June 2022, we are confident of meeting those timelines considering our liquidity and financing availability.

Also, our occupiers continued their fit-out works on 820k sf corresponding to the 60% pre-committed spaces in the new buildings delivered at Embassy Manyata NXT and Embassy Oxygen earlier this year. Occupiers for 245k sf have already commenced business operations from these new premises and the rest plan to go live around the end of this financial year.

Our ability to finance on-campus development projects, cover time delays due to unanticipated events such as recent lockdowns and our flexibility to control supply timing of our projects places us in a preferred position given the overall supply slippages in the market and the expectation by property consultants of supply recovery significantly lagging demand recovery.

Finally, I will cover our asset management updates

- First, an update on our hotel portfolio. Both our hotels were operational during the quarter but continued to witness single-digit occupancy due to the travel slowdown. Hospitality demand is expected to remain muted for the remainder of the financial year. Our hospitality team remains focused on conserving costs and has minimized the Q2 cash burn to ₹94 million. The impact of the hospitality slowdown is expected to be limited on our portfolio given these hotels contribute less than 5% of our gross asset value and less than 1% of our pre-COVID NOI.

- We continued with our asset and infrastructure upgrade initiatives during Q2. Regular investment in our properties through select infrastructure and upgrade projects is core to our asset management philosophy. Our comprehensive infrastructure programme at Embassy Manyata comprising construction of a new flyover, development of 619 key dual branded Hilton hotels and masterplan upgrade initiatives continued at pace and are on track. Additionally, the comprehensive re-positioning initiative launched last quarter for Embassy Quadron property in Pune is progressing well.
- To further strengthen our property management delivery, we recently announced the acquisition of property management operations relating to two of our largest assets, Embassy Manyata and Embassy TechZone totaling 20.3 msf. This acquisition is from an Embassy Sponsor affiliate and the consideration of ₹4,740 million is at an 8.5% discount to average of two independent valuation reports. This acquisition was funded through the 6.7% coupon bearing debt raised recently and is expected to be 2.3% NOI accretive and 0.5% DPU accretive on a proforma basis. This acquisition further enhances our overall operational delivery capability and helps us respond with more agility to our occupiers' operational needs and address their safety concerns. With this acquisition, we will own property management service delivery of all our fully owned properties.

As you can see, during this quarter, we continued to focus on active asset management and operational excellence to navigate and support the real estate needs of our occupiers through the pandemic. We recognize the increasing importance of wellness features and flexibility options in the future leasing decisions of our occupiers and continue to work with them to structure mutually beneficial solutions. We are confident that once the pandemic subsides, and it will subside eventually, and once decision-making and leasing activity are back on track, high-quality Grade A office portfolios like ours will see greater demand and will result in significant market share gains for our properties.

Over to Aravind now for the financial updates.

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Aravind Maiya

Chief Financial Officer (CFO)

Thanks, Vikaash. Good evening, everybody.

Despite the external challenges brought by the continuing pandemic, we delivered another quarter of resilient financial performance. Financial highlights for Q2 include:

- Net Operating Income of ₹4,814 million for the quarter, up 10% year-on-year, with NOI margin of 89%, up 500 bps;
- Distributions of ₹4,244 million or ₹5.50 per unit for the quarter, representing a 100% payout ratio;
- Successful raise of ₹7.5 billion listed debentures at a competitive 7.25% quarterly coupon; and
- Robust balance sheet with low leverage of 16% and strong liquidity position of ₹12.2 billion.

Now let me take you through the details.

- **Revenue from Operations** for Q2 grew by 4% YoY to ₹5,401 million mainly on account of contracted lease escalations and income from new leases in our recently delivered buildings at Embassy Manyata and Oxygen, partially offset by decrease in hotel revenues due to COVID impact.
- **Net Operating Income** for Q2 grew by 10% YoY to ₹4,814 million and cumulatively for H1 by 5% YoY to ₹9,383 million. Our Same-Store NOI for Q2 grew by 6% YOY and cumulatively for H1 by 3%. Continuing the trend of last quarter, our NOI margins improved YoY by 500 bps to an impressive 89%, mainly reflecting the change in segment mix with the higher-margin commercial office segment contributing to a greater proportion of the NOI as well as cost savings achieved during the quarter.
- **EBITDA** for Q2 grew by 13% YoY to ₹4,730 million and cumulatively for H1 by 8% YOY to ₹9,237 million. Our EBITDA margins improved by 700 bps to 88%, led by our cost savings initiatives as well as interest income received on purchase consideration advanced for Embassy Manyata M3 Block B transaction.
- Our Net Distributable Cash Flow (**NDCF**) for the quarter stood at ₹4,229 million and the Board of Directors of the Manager to the Embassy REIT in their meeting held earlier today declared Q2 FY2021 **Distributions** of ₹5.50 per unit, representing a payout ratio of 100%. This distributions of ₹5.50 per unit comprise of ₹1.90 per unit towards interest receipts from SPV, ₹3.18 per unit towards amortization of SPV level debt and ₹0.42 per unit of dividends. With this, Embassy REIT has now cumulatively declared YTD distributions totaling ₹8,743 million or ₹11.33 per unit for the first half of FY2021. The record date for the Q2 distributions is November 10, 2020 and the distributions would be paid on or before November 17, 2020.

Next, an update on our balance sheet

We continue to maintain our conservative balance sheet with a low leverage of 16% Net Debt to Total Enterprise Value, with less than 1% of total debt maturing prior to FY2022. Further, we continued our strong liquidity position with ₹12.2 billion of liquidity as of September 2020, comprising of ₹9 billion of cash and treasury balances and ₹3.2 billion in undrawn commitments.

During the quarter, we announced the successful placement of ₹7.5 billion CRISIL AAA/Stable rated listed debentures with a 37 month maturity at an attractive 7.25% coupon, payable quarterly. The debt raise witnessed healthy demand and was anchored by a prominent domestic financial institution demonstrating the preference for high-quality borrowers like us in the current volatile markets. We utilized majority of this raise to refinance ₹6,752 million of our existing debt at 140 bps lower coupon rate.

Post the quarter end, we successfully raised another tranche of listed debentures totaling ₹7.5 billion at an impressive 6.70% coupon, payable quarterly. This transaction witnessed healthy demand and was well received by several prominent domestic financial institutions. We utilized ₹4,740 million of this raise to fund our purchase of property management operations for two of existing REIT's properties which Vikaash outlined earlier. Our ability to raise debt at competitive rates once again demonstrates the strength of our balance sheet and the flight to quality borrowers given the current market situation. Even post this debt raise, we have over ₹110 billion or $1.5 billion of additional debt headroom and are well placed to finance accretive growth acquisitions to the benefit of our unitholders.

Moving to other financial updates

- Our rental collections from office occupiers remained strong at 99.5% in Q2, in-line with robust office rental collections of 99.7% for Q1. While we have not granted any rental waivers to our office occupiers, we have provided rental rebates totalling 1.4% of our annual rents to support our food court, ancillary retail and small business tenants through the pandemic.
- We continued our cost savings programme initiated last quarter, targeting savings across our operating, hospitality and corporate overhead costs. To date, we have been able to achieve cost savings of ₹585 million, resulting in significant operating margin improvements.
- Our independent valuers undertook fair valuation exercise of our properties for the half year ended September 2020 and assessed the Gross Asset Value (**GAV**) of the portfolio at ₹337 billion, up 2% from GAV as at March 31, 2020 with our core commercial office segment driving over 92% of REIT's value. Our Net Asset Value (**NAV**) as of September 30, 2020 stood at ₹289 billion or ₹375.02 per unit, in-line with our NAV per unit estimate as at March 31, 2020.
- As updated during our previous call, in Q1 we filed the scheme of arrangement to collapse the legacy two-tier holding structure of Embassy Manyata entity and we expect to receive regulatory approvals by March 2021. Upon simplifying our holding structure, the proportion of our dividends to our overall distributions is likely to increase to over 60%, comparing favorably to 7% for H1. We anticipate that our dividend and SPV level debt amortization components, taken together, will represent over 75% of our distributions post March 2021. This will be a positive given REIT dividend is fully tax free for investors and will further enhance the overall post-tax distributions yield, especially for domestic institutional and retail investors.

Lastly, I will update on the outlook for the remainder of FY2021

Given we are already halfway through FY2021, we now have reasonable visibility on the trends emerging for the remainder of the year. In terms of guidance for the full year FY2021, we expect NOI to be in the range of ₹18,530 to ₹19,480 million with a midpoint of ₹19,005 million and expect Distributions Per Unit (**DPU**) to be in the range of ₹21.49 to ₹22.59 per unit with a midpoint of ₹22.04 per unit. Note that these estimates have been arrived taking into account the following key assumptions and are subject to there being no further major lockdowns or other unforeseen circumstances given the evolving nature of the pandemic:

- Our rent yielding commercial office portfolio based on over 160 credit-worthy occupiers continues to be resilient with 99.6% rental collections for the first half of FY2021. We expect similar rental collection trends going forward and our NOI margins for the commercial office segment are assumed to remain at similar levels as 1H FY2021.
- We achieved YTD rental increases of 12% on 3.7 msf across 40 office leases and assume similar rental increases of 13% on 3.4 msf upcoming rental escalations for the remainder of the year.
- Our existing vacancy of 2.2 msf along with the upcoming likely exits of 1.2 msf will take some time to be backfilled due to the 'pause, assess, accelerate' decision making framework adopted by occupiers which Mike referred to earlier. While we continue to remain very positive on return of demand in

medium-term, especially for institutional landlords like ourselves, in the short-term, this may impact our existing 91.7% occupancy levels and hence our revenues for the balance of FY2021.

- Our two operational hotels are expected to see muted demand and occupancy levels for the remainder of FY2021 and we expect a quarterly cash burn of ₹90-100 million till such time travel and hotel demand revives.

We remain focused on delivering our NOI and quarterly distributions and maintaining our liquidity and balance sheet discipline. Over to Mike for his concluding remarks.

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Michael Holland

Chief Executive Officer (CEO)

Thanks, Aravind.

So, we continued our resilient performance this quarter with strong rental collections and again underline our commitment to quarterly distributions to our unitholders with ₹4,244 million distributions in Q2.

Our second quarter unfolded as expected. Corporates continued to defer decision making in the volatile and uncertain macro environment and this translated to slower leasing in commercial office space and an overall marginal increase in vacancy rates for the Indian market as also reflected in a slight decline in our occupancy.

The integration of property management operations for two of our largest properties through the acquisition, as detailed by Vikaash earlier, will further strengthen operational relationships with our occupiers and enhance service delivery especially important given the heightened health and safety focus by occupiers as they finalize 'Back to Workplace' strategies.

We are positive for the next financial year due to our portfolio exposure to the right markets and right sectors. The customers we primarily cater to are doing well and we are confident that this will drive demand once decision making returns next year. We are extremely well-positioned to emerge stronger as market moves towards fewer, quality institutional landlords like Embassy REIT. In the meantime, we remain committed to our business strategy to deliver total return to our unitholders through regular quarterly distributions supplemented by our organic and inorganic growth initiatives.

So that was the business overview for Q2 FY2021 – let's move to Q&A please.

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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 questions-and-answer session. The first question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari: Hi, good evening to everyone. Aravind, I have a question for you. In this quarter we did get some interest cost savings because of refinancing. Do you think we have further scope to reduce our borrowing cost, especially for the ZCB which is coming up for repayment in 2023? Is there any repayment clause that you can take benefit of for reducing the costs?

Aravind Maiya: Thanks Abhishek for the question. You are right, there has been significant reduction in our interest cost and that's been evidenced in the two bond raises which we have done. And linking it up to our current existing NCD – our ₹3,650 crores of bond comes up for ultimate maturity in June 2022, with a prepayment option from December 2021 onwards. So, at that point in time, we will evaluate the refinancing of this NCD and the proportion which we will refinance into a coupon bearing debt, basis the proportion of under construction buildings which are completed. And if the current market continues, we expect that we will be able to take advantage of this compression in rates, and it will be great for our business at that time.

Abhishek Bhandari: Sure, thanks Aravind. Vikaash, my second question is to you. You mentioned that you achieved 13% mark-to-market spreads on the releasing. But if I compare it to the previous year's numbers, where we used to talk about 19%- 20% spreads, do you think the current MTMs are running slightly lower than our original estimates?

Vikaash Khdloya: Thanks Abhishek. That's a great question. I will break it into two pieces. One, on the new leases, as we mentioned, we have leased the 120k sf at 10% above market rents. On the MTM, the momentum has been slow and the MTM realizations have been flattish. What I mean by that is, while it is in line with what the market rents are and what we have achieved in the past, but we have not been able to really drive those MTMs higher as usually we would do each year.

So, the 13% releasing spreads on the 0.5 msf we have already done is partly reflective of the in-place rent of those leases when they came up for expiry. If I can guide you to Slide 31 of our earnings deck, the 1.2 msf which we are projecting as likely exits, the MTM on that is actually 16%. So, it is a mix of both, one, of course, we would love to achieve even higher MTMs, but these are in line with our expectations. And two, the remaining leases which are likely exits, are at much below market rents and, whenever we do lease them up, we will see higher MTMs.

Abhishek Bhandari: Thanks Vikaash. And Mike, my last question is to you. Given the current market conditions and the abundant liquidity available in the capital markets, do you think it makes sense to probably accelerate evaluation of ETV?

Michael Holland: So, on acquisitions, we are looking at a number of different opportunities and we continue to evaluate Embassy TechVillage. We will come back with an update on those opportunities in due course. As a general comment, we do see a divergence across the market where the really high-quality properties are in strong demand from a number of potential acquirers and a falling away of the second grade type of properties. So, we will continue to focus on the quality and type of property, we have outlined the criteria for that before. And yes, we will continue to do that and to do all the work around different opportunities, including TechVillage.

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

Saurabh Kumar: I have three questions. One is on this dividend which is down. I just want to understand, below the line what is happening at GolfLinks, and any other below the line adjustments which may have happened to drag down this dividend. Because if I look at your property level NDCF, that is still up 4% and the drag is coming below that. And, also, Aravind, if you can just explain why the working capital has moved the way it has moved. So that's first. And I will follow-up with the other two later.

Aravind Maiya: Saurabh, hi. If you go through the walkthrough of the distribution number, you will see that the distributions QoQ were down 8%, even though the NOI is up. There are two main reasons for that. One is the point which you mentioned around GolfLinks, the joint venture entity – the distributions are lower because the debt was fully repaid in the beginning of this quarter. So now the cash flows are distributed to both shareholders by way of dividends.

In relation to the second item, which moves the distributions lower during the quarter, is the working capital changes. This is largely due to the security deposit refunds during the current quarter due to the occupier churn which Vikaash mentioned. So, these are the two main reasons which are impacting our flowthrough of EBITDA to NDCF.

Saurabh Kumar: So, this ₹26 crore we are seeing in Embassy GolfLinks, is that the stable level of cash flow which one should expect as distribution from the asset?

Aravind Maiya: No, not really. So, this number what you are seeing, ₹26 crores, was the final instalment of debt which was repaid during the quarter. And in future quarters, assuming there is no further debt, this number will move to zero. What will happen in subsequent quarters is that GolfLinks will distribute dividends and these dividends will be received in the entity Embassy Office Parks Private Limited, which is the TechZone entity. And if you just look at the walkdown, it will sit as a part of other income.

Saurabh Kumar: Yes. But I just want to know what is that amount which will get distributed? What is the profit plus depreciation of GolfLinks, just to see what is the offset against this ₹26 crore which we get?

Aravind Maiya: The run rate going forward on a current basis will be approximately about ₹30 crores of dividend per quarter.

Saurabh Kumar: So, ₹26 crores goes away and ₹30 crores comes back. Okay, got it.

The second is on a follow-up on this mark-to-market question. So, in FY2022 and FY2023, you have a significant mark-to-market, which you show on your Slide 31. So, in the current market, and as you roll into FY2022, I am sure you are having some of these forward-looking conversations with your tenants. How confident are you to achieve, maybe not the exact number but something around that vicinity? Because that will be a pretty significant driver of your NOI growth, in FY2022 and 2023.

Vikaash Khdloya: Thanks for the question. That's a good question. A couple of things in respect of the FY2022 and 2023 mark-to-market, which you see on Page 31, which is approximately 58% and 37%, respectively. One, that's a function and factor of what the in-place rents are at that time. So, some of our legacy 15-year leases with our large occupiers come up for ultimate expiry renewal at that point in time. For instance, Manyata rent for a legacy lease would be, let's say, 40%-50% of the existing rent that we are able to achieve. So, in that sense, we remain fairly confident and positive on achieving those mark-to-market gains. We also expect the leasing momentum to pick up in the market by that time. In fact, if you see the current quarter, some of the leases that we have done, the 124k sf has actually been 10% above market rents which are assessed independently by CBRE. So, we remain very positive. We have delivered those MTMs in the past. These are legacy leases significantly below market and we think we will be able to achieve these mark-to-markets again.

Saurabh Kumar: Okay, got it. And the third question is generally on the market, so you are obviously painting a more realistic outlook. But when you see the papers, you keep hearing about all these record deals happening every two, three weeks in India. So effectively we are seeing some of these guys continue to invest and take up about 1-1.5 msf assets. Are you losing out there just because you don't have supply in the relevant market, or you don't have any capacity? Is that why we are not there? Or is it that, the market is just bad and there is nothing to be done there?

Michael Holland: Thanks for that, Saurabh. And you are absolutely right, there are some great deals that have been announced over the last six months during the COVID period by the FAANG type of companies and in multiple cities. And it's an indicator of the strength of the technology sector and the way in which they continue to grow and continue to see India as the place that they can support their global businesses. We do have limited supply, our occupancy is up there at that 91%. The supply that we did bring forward at the end of last year, particularly in Bengaluru, we are 70% occupied on that. And that is just a really positive reflection of particularly the Bengaluru market. Even though vacancies might have gone up by 1% or 2% over the last six months, actually CBRE is reporting increase in rentals over the last quarter. So, it's a strong market.

Would we like to have more supply available to lease up now? Yes, we believe that once decision making comes back, the limited quantum of space that we have today will be taken up pretty quickly. And then the new space that we have got under construction in Pune and in Bengaluru, which of course is not coming on through for another couple of years, we think that we will be talking to those types of large tenants who have got RFPs out in the market now. So, very positive.

Saurabh Kumar: Okay. And, one last question, just in terms of the distribution. Is there any thought to move away from distributing the entire free cash to doing something like the global REITs do, which is just the FFO, such as maybe a profit plus depreciation and the straight lining impact to reduce the volatility around working capital and all the other changes? Or would you continue on this?

Aravind Maiya: Saurabh, so our thought process and philosophy around distribution is to continue 100% percent of our NDCF as distributions, and that is largely supported by three reasons. One is the existing liquidity in the business of ₹9 billion as well as the undrawn commitments. Second, is our low leverage ratio of 16% and our ability to raise additional funding as and when required, especially for our CAPEX projects. And lastly, the strong 99.6% collections which are coming from our office occupiers. All put together gives us the confidence to continue to distribute 100%.

Vikaash Khdloya: And Saurabh, just to add here, while you make a point on ensuring the distributions are more even. But the way we look at it is, we manage the business not for the quarter but a longer horizon. And we would encourage the analyst and investor community to look at it more from distributions for a particular year or a longer timeframe. So, in that sense, the couple of cycles in the business will get taken care of itself, in terms of tenants exiting, new tenants coming in and the revenues and the distributions reflecting that.

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

Kunal Lakhan: My first question was on the key assumption that we have for the H2 guidance for distribution. So, I understand the GolfLinks dividends may offset the principal repayment, but just want to understand on the working capital changes. Considering that you expect 1.2 msf of likely exits, how are we based on those assumptions for H2?

Aravind Maya: In terms of the guidance for the full year FY2021, we have given a midpoint number of ₹22.04 per unit which factors in two key reasons for distribution being lower as we move from EBITDA to NDCF. One is the GolfLinks aspect, which I spoke about. Second, working capital has two components, a large component pertaining to the security deposit refunds which are expected over the next six months which have been factored in. And second, as we mentioned in our last quarter call, there were a few one-off items in working capital of last year which is not expected to recur, that's also been factored in.

Kunal Lakhan: Sure, that's helpful. Also, just a follow-up on the question on the distribution. So, the TechZone distribution this quarter was down YoY by almost ₹260 million. What's the reason for that?

Aravind Maiya: So, this is basically comparing it to June 2019 quarter, right?

Kunal Lakhan: Correct.

Aravind Maiya: Yes. So, we had mentioned this in our last year call that in June 2019, there was a pre-termination from a large tenant, which earned us a one-time pre-termination fees, which is part of distribution for June 2019 quarter. That is primarily the reason why you see this number going down.

Kunal Lakhan: Sure, thanks. And secondly, in the opening remarks, Mike, you mentioned that you continue to evaluate opportunities besides TechVillage. Can you give us some indication on how is the acquisition scenario right now, considering the deals that have happened so far – be it the RMZ announcement or be it the deal that's going on between Blackstone and Prestige. So, how are you looking at the acquisition scenario currently?

Michael Holland: We have set out the criteria that we are looking for in potential acquisitions – the geographies that we look at, the customer base, the sector - which is office, the scale, the particular return profile and that we are not focused primarily on development and retail. So, if you look at some of the portfolios that you have mentioned, they would be very different in a number of criteria. So, our core focus is office, large scale, very similar tenant profile to what we currently have within the portfolio because we feel that that is the best profile of tenants with the highest credit quality and the most resilient, as we have seen in the last six months. We were often asked about technology and concentration around technology, and I think it's been underscored that actually, now the world is becoming more technologically dependent and, therefore, more dependent on our sort of tenants. So, we will continue to focus on a similar profile as we are looking at acquisitions.

Vikaash Khdloya: Also, Kunal, just to add. We believe that institutions with access to capital will really be able to differentiate themselves and access some of these large opportunities as distress and liquidity concerns play out in the market. And the teams who have the ability to move fast and underwrite based on the on-ground experience will really be able to benefit from this. So, we think we are well placed in that regard.

Kunal Lakhan: Vikaash, just a related question on that. You mentioned access to capital, so would you still look at raising equity for any such acquisition, considering the cost of borrowing now that you are getting is closer to the yield?

Ritwik Bhattacharjee: If the use of proceeds and the acquisition makes sense, and it's a large capital raise, we would actually think about raising equity. It's in line with what REITs globally do as they are financing vehicles. And the one thing that you do have to remember is that, while we do have access to debt capital, and Aravind and the team have done a fantastic job raising capital in these times, the capacity for raising leverage right now is pretty constrained for an Indian REIT, simply because of the regulatory requirements. And the capital structure environment of REITs is changing. So, one thing we don't want to do is, overextend ourselves on leverage. If there is an opportunity to use equity and units to raise capital, we will. Also, liquidity is something in short supply for the REIT right now, we are focused on that and that's a feedback we get from the buy-side as well. And for a defined use of proceeds, we will certainly think about it.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwala from Kotak Securities.

Murtuza Arsiwala: On the revised guidance on NOI, can you break it down into broader buckets, in terms of how much of the guidance was revised downwards because of hotels shutting down and how much would be broadly because of exits? And have we seen any contractual escalations not being met or any unexpected sort of impact of COVID besides the obvious? Just some broader sort of classification of how the downward revision happened.

And second is, do you see the extent of impact continuing in FY2022, while we did not have a formal guidance, but in terms of the collateral sort of damage on FY2022 earnings, maybe hotels continue to operate at low occupancy and other such impacts? So, if you can give a broad classification on how you see that guidance, just to get a sense of how much we will have an ongoing impact of that.

Aravind Maiya: Sure, Murtuza. In relation to the split of the NOI guidance, if we were to look at it between hospitality and the commercial business, the hospitality business for the first two quarters has led to cash burn of approximately ₹200 million, and that is the expected level for the next two quarters as well. So overall, it's expected to be negative by ₹400 million for the full year, versus about ₹100 to ₹200 million positive last year. So that's the impact of hospitality. And if you look at it from a commercial perspective, there are positives and negatives. From a positive perspective, the lease up which has happened in the newly completed towers, which is NXT and T2 is a positive from NOI perspective. But having said that, some of this will not really flow through distribution for the year because of the rent free periods for fit-out completion, but it does add to the NOI. Some of which gets offset by the exits which Vikaash mentioned. While the exits will not have full impact for the year, because exits are happening during the course of the year, but it does have an impact because backfills are expected to take time.

Just in terms of the subsequent part of the question on FY2022, we would want to reassess the position in this regard in April 2022 and provide an update basis the overall economic stability at that point in time.

Michael Holland: Murtuza, you also asked about contractual escalations being met and I can rightfully say that we have achieved 100% of that. If you take a look at Slide 30, we have achieved 12% escalations on 3.7 msf year-to-date. As we mentioned a couple of quarters ago, we have always been pretty confident about delivering on that. We have got another 3.4 msf of escalations in the balance of the year and that's projected to get a 13% increase. So that component is something that has been very strong.

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

Mohit Agarwal: Just one question – wanted to understand if are you seeing any changes in the new contracts that you are signing? One observation that I had, and please correct me, the WALE (Weighted average lease expiry) on the new contracts seems to be shorter and the overall portfolio WALE has also come down. So that, and also any other changes that you are seeing in the new leasing contracts that you are entering into?

Michael Holland: Thanks Mohit. What is happening is, in this particular period, corporate occupiers are in that assessment stage where they are still figuring out. In the early days, it was figuring out how to continue their business. Now, it's figuring out how to continue to grow their business, grow their portfolio, how does that work with the de-densification, and so on. So, if there is one change that is coming, that is already there in the few leases that are being done is that people are looking for a little more flexibility. So, it's not about the rental rate, it might be about the term of the lease or a lock-in so that people can get past this uncertain phase and move back to a much more certain long-term view. And of course, where appropriate, we are showing some level of flexibility in aspects of those terms to either attract or retain tenants. But we are very confident of our position that demand will come back, vacancy will continue to be low in our markets and sub-markets. And I think occupiers are also aware of that and that's another reason why you are really seeing rentals holding firm.

Mohit Agarwal: Sure, thanks. And apart from the lease expiry timelines, any changes in the rent-free period or the deposits that you get from them or the TI Capex, or any other changes in the new contracts?

Vikaash Khdloya: That's an interesting question. So, as Mike mentioned, occupiers are definitely looking for flexibility. But in terms of deposits, other standard terms and escalations, etc., we have not seen any change from what we have generally been following and expecting. One interesting trend is that occupiers of really high-credit are also looking for the flexibility for the landlord to fund the Capex. And while in general, we would not do that, but for really high-quality occupiers with good balance sheets, we are open to that idea, simply because it distinguishes us from some of the competition, given that we can finance this and, added to that the attractive returns on such fit-out deals plus the fact that tenant then is sticky as they grow in our parks, is a pretty good outcome. So, we are flexible on a case-by-case basis. But in general, other than this, we have not seen any material change in the terms or the construct of the lease agreements.

Mohit Agarwal: And just last clarification, you don't see any significant material negative impact of that on our books, right?

Vikaash Khdloya: Absolutely not. Because one, we are not going to do this for every lease, we are very selective – only if it's a global renowned company with great balance sheet. And while they can put in the Capex, I think sometimes they just look for that flexibility given that the business has grown but their Board has taken a call not to fund capital investments, that's the time where we can provide that flexibility in structuring an option that really distinguishes us. So, it's actually some of those cases with the tenants who can really afford it, but the process would take more time given the global HQ mandate of freeze on Capex.

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

Pulkit Patni: Given that we have been in this pandemic for more than six months now, from your conversations with various tenants, is there a view of change in the way tenants look at various cities? So, do you see tenants reducing heavy exposure to Bengaluru and wanting to shift to Hyderabad? So just to get a sense of where we could also look at more expansion. Is Bengaluru considered to be sort of overly exposed to by technology companies given the nature of this pandemic?

Michael Holland: I think the key issue is, this is not an either/or binary type of conversation. Most of the large blue-chip tenants who are present in the market here would have one, two or even more facilities in different cities. I could give numerous examples. So, the old model of either city A or city B is really not valid. What it is all about, though, is that the tenants are coming to market because of the talent in the particular sector in which they play. So, you are definitely seeing a cluster in Bengaluru around the banking and finance sector, whereas five to seven years ago, that was more focused around Mumbai. Now, it's both. Of course, the core technology operators might be in Hyderabad and Bengaluru, just like you have got, let's say, a Google and Microsoft present in both cities. So it's not really an either/or, and in some respects that's the beauty of the Indian office business model and there is great demand in the top six metros across the board. So, the demand is there and from a business continuity perspective also, the companies might be present in one or two cities at a minimum.

Pulkit Patni: But from an expansion perspective, any particular city that has gotten more interesting post COVID?

Vikaash Khdloya: So, again, depends on the occupier. Bengaluru is a city which has a really large base and is a preferred choice of existing occupiers. Hyderabad, on the other hand, while it has attracted a lot of top quality occupiers over the last one or two years, has seen massive announcements around supply, some of which definitely are going to be deferred, but comprising really dense and tall 27-30 floor buildings. I think occupiers are going to relook at those aspects, especially during this COVID time and some of the upcoming supply, especially in Hyderabad, is going to be impacted due to the infrastructure and the density. Again, as I said, it depends on the occupier. We do believe that Mumbai will be soft – while all three of our properties have done well because of these being the best assets in the micro-markets, I think Mumbai is the one city which is going to see rise in vacancy rates in general, simply because the COVID pandemic has been more severe there and infrastructure is a bit limited given the restrictions during the lockdown.

Michael Holland: To add to those comments from Vikaash, what we do see is that the large corporate occupiers generally cap the number of people that they would have in any one city. So again, you could pick any one of the FAANG type of technology companies or the banking sector, each one would have a headcount cap in a particular city, and then any further growth tends to go to another one of the top six Tier-1 cities. But I don't think that the COVID response in itself is driving occupiers to any one or the other city.

Pulkit Patni: Sure, that's helpful. My second question is on the 1.2 msf expiries in FY2021 where you mentioned that some of them could be COVID-induced exits. Could you highlight what exactly it means? Does it mean that these are occupiers whose industry has been severely impacted by COVID and that's why they are exiting? Or does it mean that these are tenants who are expecting a lower mark-to-market? If you could explain what exactly COVID-induced exits are you referring to here?

Vikaash Khdloya: Sure, Pulkit. If you see Slide 31 of our earnings deck, we mentioned that approximately 1.2 msf are likely exits – of which, about 400k to 500k sf are COVID-induced. So, when we say that we mean occupiers who are from sectors which have been significantly impacted, either their businesses have become outdated or cannot survive the pandemic or they are looking at significantly lower costs, given that they would not have the ability to pay the kind of rents that we would be expecting. To give you certain examples, in our Embassy 247 Park in Mumbai, we had an occupier occupying 29k sf, we encouraged them to look at another space because their business was an online retail and physical furniture business and that was obviously under stress. In Embassy GolfLinks, we had a 20k sf legacy occupier relating to travel bookings business and, obviously that business is impacted right now. In Express Towers in Mumbai, we had a 6k sf tenant which was in the newspaper industry and again, it has been extremely hard hit during the pandemic. In Embassy GolfLinks, again, we had a very small player who was in the co-working industry and co-working industry is seeing a massive shake up with only the top two-three players who have the balance sheet, financing and size will survive, and some of the others are facing difficulties. So, these are some of the examples and we have seen a lot of such cases – whether it's retail, tenants supporting aviation industry, newspaper and print industry, co-working – these are the kind of legacy occupiers or occupiers whose businesses are not core technology, who have faced the challenges during the pandemic and have been induced to exit due to COVID.

Pulkit Patni: That's helpful. I remember in the previous presentation, you had actually highlighted what percentage of the portfolio is occupied by them. So, is it fair to assume is that these people are exiting, but there is no major renegotiation of rent downwards being done to retain these occupiers?

Vikaash Khdloya: That is correct. Just to add to that, while we say that 5.3% of our rents are from occupiers who are from these impacted industries, in fact, some of them are actually doing well. And I will give you an example of a large online retail company in U.S. whom we thought would find it very difficult given their status in the U.S., but they are in fact, in India, not only paying rents and escalations but are also talking about more expansion in India, simply because of the stress in the West, they need to offshore more work to India. So, while there may be 5.5%- 6% of the rents from the impacted sectors, some of these occupiers are actually sustaining and coming out of the shock; for some of them, obviously, the business models are outdated and those will move out. From our perspective, we take a pragmatic call on a case-by-case basis. So really the fundamental question we ask ourselves is if the business is going to survive? Is this a growth tenant? Is this a tenant that is undertaking sophisticated, top quality, high up the value chain kind of services? Because if the answer to all of these is yes, then that's the kind of tenant we want in our portfolio. If it is no, then it's an issue simply because those are not the kind of tenants who will grow and pay those premium rents that we seek.

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

Amandeep Singh: My first question is regarding the acquisition of Property Management Services business for Embassy Manyata and TechZone. On Page 92 of the valuation summary, we noted that there is a sharp increase in net margin estimates over FY2023 to 2027. So, in that context, is it fair to say that this is due to completion of upcoming assets at both the properties? And you expect the entire lease up at Manyata and TechZone by FY 2026, FY2027 respectively?

Vikaash Khdloya: That is correct. So, the valuation report factors the future under construction buildings and the margins on those for both the assets. But let me take a step back and layout our thoughts on the property management operations that we have acquired. One, this relates to assets which we currently already own in the REIT and this acquisition fully integrates the park management and improves the customer service and enhances occupier connect. Second, while we have acquired it for ₹4,740 million which is at an 8.5% discount, really the way to look at it is that the expected pro forma annual EBITDA for this purchase is about ₹415 million. And, given we have financed it through the 6.7% coupon bond, it translates into DPU accretion of 0.5% from day one post acquisition. So honestly, for us, this acquisition was strategic. And while the valuers have used the DCF method, we look at it in terms of what is the pro forma one year forward EBITDA that we would be assuming, and what does that mean to our DPU day one.

Amandeep Singh: That's really helpful. And secondly, regarding vacancy at Mumbai property Embassy 247, we have also seen tenants vacating ahead of expiry in these micro-markets. So, in that context, can you help us understand the trend post September? And how are the rentals impacted here?

Vikaash Khdloya: So, in 247, specifically, we had a large retail company who was occupying office premises whose entire business model has been significantly impacted by the COVID pandemic. That's why you would see some vacancy increase in that asset. In general, I would say, all three of our Mumbai assets have withstood pretty well during the pandemic. We do note, in general, that the Mumbai market, especially some of the downtown buildings, have seen significant churn and expiries, simply because these are focused towards domestic occupiers and the rental levels are different than what we have in some of the growth cities like Bengaluru and Hyderabad. So that's point number one.

Two, of course, the pandemic and the restrictions that have been placed in Mumbai makes it a little easier for the domestic occupiers to take a call on extending the work from home for certain time period. And the switching costs in Mumbai are not that high as in other locations, given the proportion of rent versus fit-out or furniture costs. So, the overall Mumbai market has seen a lot of churn. However, we have completed couple of renewals s recently in Express Towers and in FIFC with top notch technology companies, including the names that you will see on Slide 17 and we think that the outlook for our properties is stable and we don't see any significant reduction in rentals for our property. But the Mumbai market remains challenging.

Moderator: Thank you. The next question is from the line of Kunal Tayal from Bank of America.

Kunal Tayal: A couple of questions from my side. The first one is, Mike, I found the comment very interesting that some of your lease signings this quarter are above market rate. So broadly wanted to understand, is that a reflection of the quality of your spaces on offer? Or should we think of it as a very strong pricing discipline in the market?

And then the second one. Going back to your initial comments of demand revival potentially in two quarters – do you think pent up demand is alone a strong factor to drive this, or will it have to be accompanied by, let's say, some of the international occupiers having at least 30%-40% of their existing space getting occupied?

Michael Holland: Okay, so you mean will the slow back to work essentially dampen the acceleration of takeoff with new space, right?

Kunal Tayal: Yes.

Michael Holland: So look, your comment about above market rate, Vikaash mentioned that it is about pricing discipline. Not just during this pandemic but even prior, we have been disciplined about pricing against our product. We will try to be flexible in a number of different customer-centric ways and we look for ways that we can make the overall product proposition appealing. So, it may be about the complete ecosystem – for example, by building a conferencing center alongside NXT, that gives us a competitive edge against other products in the market. And so that's an element where we are able to achieve those premium rentals, and we are disciplined about that. At the moment, when the market is so muted in terms of leasing, there's really no sense in looking at price reductions when there is little going on in the way of transactions. So, I think we will be right in that and we will be proven right come the next financial year.

In terms of demand being linked to the back to work proportion. To a certain extent, that is true for the smaller occupiers, that they will wait until they get back to a level that they are confident and stable. But for the large corporate occupiers who are looking at long-term consolidations and looking for large spaces, they have to move ahead as they are thinking longer term, they know that their businesses are growing, that their headcounts are growing. And one of the numerous advantages that we have is that we are able to offer that flex and runway for growth trajectory for those occupiers. So, we have, I would say, literally dozens of occupiers who over the last six or seven years, have leased up small spaces first and have grown with us. The most extreme example is that U.S. retail company that started with three people in 2014 and is now nearly 3,000 people. So, by offering that flexibility, we are able to bring that tenant onboard, build a relationship, and they grow with us over many years to come. So, to both of your questions, the answer is yes, pricing discipline and demand linked to that back to work of employees.

Moderator: Thank you. We will be able to take one last question. We will take the last question from the line of Rakesh Vyas from HDFC Mutual Fund.

Rakesh Vyas: I have a couple of questions. First one, just wanted to get some sense, as the workforce is coming back to offices, although it remained significantly below what it has been at peak, have we seen any discussion around changing office layout pertaining to de-densification, etc. already? Or it's under discussion to some extent?

Michael Holland: We have heard a few conversations about it. Have we seen anybody actually execute on that? No. But we are seeing new tenants who are looking at spaces with less dense space standards. Again, I think that companies are still in that assessment stage. They want to get past this stage when they can get back to the office. And then on new space, certainly, you will see a higher standard and a reduced density.

Vikaash Khdloya: Also just to add, the existing occupiers, in the short-term, are open to and determining the optionality of just re-modelling the existing space. For the long-term, existing occupiers' approach has been to just wait, and as Mike said, assess. And as the pandemic unfolds, they will take more medium-term view. That's how the existing occupiers are looking at it.

Rakesh Vyas: Sure. And my second question is, I wanted to understand what is the total amount of lease expiry in next 12 months? And I have a related question with that as well.

Vikaash Khdloya: We have the FY numbers where we have about 1.2 msf of expires this year. And if we were to take the first half of next year, it would be about 500k sf. So roughly, Rakesh, we have about 1.7 msf of lease expires in NTM.

Rakesh Vyas: Got it. And just wanted to understand on that aspect itself. So, given how the work from home commentary is still moving around, Mike also talked about some sort of hybrid working environment by various companies, is there a risk incrementally from here on that the lease renewals on some of these which are coming up in next 12 months, not only for us but for the industry as a whole, could probably see more pressure in terms of re-leasing and therefore increases vacancy and put pressure on rentals?

Vikaash Khdloya: So, certainly that would be the case for Grade B premises, the legacy buildings or buildings who are not compliant to safety, health, and wellness. But what we are seeing is, a couple of things. One, most companies are currently paying less than the market, which is true for our portfolio especially, but also for top-quality buildings across the country. Two, it is important to note that the switching costs for occupiers is pretty high, especially given the fact that all the Capex expense has been incurred by them already when they occupy the premises plus to factor in all the reworking of the transport planning and costs associated with the employee movement. Third, the availability of the Grade A office space is pretty limited, especially in our core markets of Bengaluru and Pune. So, what happens is, if they would want to relocate, they need another available space. Plus, the fact that they are already below market here, it would make more sense for them to renew or take up space at the existing premises. Fourth is, because of the liquidity squeeze and also the labor challenges, we believe that supply will be really constrained in the next two to three years. So, if you see all these factors, occupiers whose businesses are actually fundamentally doing well, they would really need office space and Grade A office premises is what they will opt for. And again, rents is really not a factor for most of our occupiers, especially, because they are here for the talent and for the quality of the space.

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

Michael Holland: Thank you for these great questions. I trust that we have communicated that, despite the extraordinary circumstances brought about by the pandemic, we delivered a resilient set of results this quarter taking our YTD distributions to ₹874 crores.

I believe and hope that we will soon pass the worst in terms of the pandemic in India and its impact on economic activity and that we will see a strong revival in the leasing market activity in India thereafter. Till then, with our robust balance sheet, strong occupier relationships and our committed on-ground teams, we are well-positioned to navigate the headwinds brought by the pandemic and emerge stronger. We are grateful to you for your interest in Embassy REIT and for your time today. 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.