EMBASSY REIT

February 01, 2022

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

To,
The Corporate Relations Department,
Department of Corporate Services,
BSE Limited,
25th Floor, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400001.

Re: Script Symbol "EMBASSY", Scrip Code 542602 and Scrip Code 959990, 960165, 960421, 973434, 973545 and 973546 (NCDs).

Dear Sir/ Madam,

Subject: Transcript of the Earnings Conference Call for Q3 FY2022 Financial Results.

ln continuation to our letter dated January 29, 2022 regarding the link to access the audio recordings of the Earnings Conference Call held on Friday, January 28, 2022 at 1800 Hours IST to discuss the financial results for the quarter and nine months ended December 31, 2021, please find enclosed the transcript of the aforesaid conference call.

The transcript referred to above has been uploaded on our website and can be accessed through the following link:

https://eopwebsvr.blob.core.windows.net/media/filer_public/58/83/5883b4c9-7d0d-4daf-a311-00927f731cdb/transcript_q3_fy22.pdf

Thanking you,

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

DEEPIKA SRIVASTAVA Digitally signed by DEEPIKA SRIVASTAVA Date: 2022.02.01 16:06:49 +05'30'

Deepika Srivastava
Company Secretary and Compliance Officer
A23654

Encl: as above.

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Embassy REIT
Q3 FY2022 Earnings Call
January 28, 2022

CORPORATE PARTICIPANTS

Michael Holland – Chief Executive Officer (CEO)

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

Aravind Maiya – Chief Financial Officer (CFO)

Abhishek Agarwal – Head of Investor Relations and Communications

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for the Embassy REIT's third quarter FY2022 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. Abhishek Agarwal, Head of Investor Relations and Communications for Embassy REIT. Sir, you may begin.

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Abhishek Agarwal

Head of Investor Relations and Communications

Thank you, operator. Welcome to the third quarter FY2022 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter ended December 31, 2021 a short while back. As is our standard practice, we have placed our quarterly financial statements, earnings presentation discussing our performance, and a supplemental financial and operating databook in the Investors section of our website at www.embassyofficeparks.com.

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 and any proforma information that we will provide on this call are management estimates, based on certain assumptions and have not been subjected to any audit, review, or examination procedures. You are cautioned not to place undue reliance on such guidance and information 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 Covid pandemic, and the direct and indirect economic effects of the pandemic and related containment measures on Embassy REIT and on our occupiers.

Joining me today are Michael Holland, the CEO; Vikaash Khdloya, the Deputy CEO and COO; and Aravind Maiya, the CFO. Mike will start off with the business and industry overview 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, Abhishek.

Good evening and thank you for joining us on the call. We have many encouraging items to communicate today. We will report on multiple new lease deals, in fact our highest level of new leasing since April 2020, and, again on the delivery of our quarterly distributions – a healthy ₹4,929 million, bringing our total YTD Unitholder distributions to ₹15,640 million or ₹16.50 per unit. In addition to our results for the quarter, Aravind will detail an increase in guidance for our NOI and distributions. This increase, in spite of the current Omicron wave, reflects the clear acceleration in leasing activity and our optimism on the growing demand for India office as we move into FY2023. On another positive note, it's one year since the ETV acquisition and Vikaash will detail a number of areas of outperformance of that asset in that time. And finally, we have today received a Right of First Offer ('ROFO') intimation from Embassy Group in relation to Embassy Splendid TechZone, a 26 acre business park in Chennai totaling around 5 msf when fully developed, and we will shortly commence our review process on this opportunity. We are excited by the potential to continue to expand our portfolio footprint with large scale, high-quality opportunities, whether through our sponsor or partner network or external market opportunities.

In terms of the external environment, the new Omicron variant emerged in India towards the end of December. In just one month, cases in India have multiplied, though, as seen in the West, the impact in terms of hospitalization and fatalities is limited. However, there has been a disruption to normal business operations arising from staff absence and post-testing quarantines, resulting in a delay in the new year 'back to office' plans of many corporates. Active cases in leading Western countries have, after only 4-5 weeks, peaked and, in many countries, we now see a significant downward trend. If urban India were to follow similar trends and timelines, we would likely see a peak by early/mid-February, followed by an active recommencement of 'back to office' ramp-up.

In Q3, we saw a very encouraging trend of new lease deals, with multiple new market entrants committing to premises. The conversion of leasing pipeline into signed deals has been impressive despite delays in some cases due to staff absences, and we are confident that the long-term trend remains intact. Our confidence stems from the consistent feedback from our corporate occupiers as well as the clear macro differentiators for India office which are increasingly translating into the growing leasing pipeline.

First, it is clear that the demand from our customer base continues to grow as the world accelerates its digital transformation journey. Many of our occupiers continue to report record earnings, deal pipelines and accelerated hiring. As these corporates grow and expand their footprint, India continues to be their destination of choice given the abundant availability of cost-effective STEM talent.

Second, that STEM employee base is a young demographic in the early stages of their careers who greatly value opportunities for learning, networking and innovation in the workplaces of these rapid growth businesses. In addition, urban India has well-known infrastructure challenges for efficient work from home, and global concerns around cybersecurity and data privacy continue to increase. All these factors drive the importance of physical office for the growing workforce in India. While 'back to office' in India has been delayed by the recent Omicron wave, the intent from corporate leadership is clear and physical office continues to be at the heart of their businesses.

Third, at the property product level, this rapidly growing tech and global captive customer base is seeking higher product standards for their employees. Institutional-grade, wellness-oriented and green-rated buildings have been the preferred choice for global occupiers, a trend which will continue given the ever-increasing focus around attracting and retaining the best talent. At Embassy REIT, we provide an industry-leading portfolio of best-in-class properties, which we continue to enhance through our active asset management and ESG initiatives. On ESG, we recently set out our sustainability roadmap with 19 specific programmes, each with a defined baseline and mid-term targets. By way of example, we have set out our commitment to increasing our renewable energy share from our 2019 baseline of 35% to 75% by FY2025. We believe that our ESG initiatives further cement our position as the 'office provider of choice'.

As the pandemic recedes, we expect pent-up leasing demand to surge, and that too in a favorable backdrop of constrained market supply, especially in key micro-markets across the country. The fundamentals of the Indian office sector and the strengths of our institutional-grade properties, present in the right locations, will continue to drive our leasing momentum and growth trajectory.

I will now handover to Vikaash to present our business and operating highlights for Q3.

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Vikaash Khdloya
Dy CEO and Chief Operations Officer (COO)

Thank you, Mike and good evening.

We continued our positive trajectory on new leasing and development in Q3. Business and operating highlights for this quarter include:

- Leased 428k sf at 24% spreads across 15 deals, including the highest level of new leasing since April 2020;
- Delivered 1.1 msf JP Morgan campus within budget and commenced new growth cycle with 1.9 msf new office development at Embassy TechVillage ('ETV');
- Launched one of Asia's largest solar rooftop projects to deliver over 20 MW scale and 30%+ projected IRR; and
- Successfully integrated the ₹98 billion ETV property within a year of acquisition, delivered better than underwriting on a number of metrics.

Let me cover the detailed updates under 3 broad themes – our leasing performance, our organic growth updates and our acquisitions initiatives.

First, an update on our leasing performance

As of December 2021, our portfolio occupancy stood at 87% on our 33.6 msf operating area. During Q3, we witnessed an uptick in our deal activity as we successfully leased 428k sf at 24% spreads across 15 deals. This included 346k sf of new leases signed at 17% re-leasing spreads and 82k sf renewals at 39% renewal spreads. Worthy of particular note is that about a third of our leases during the quarter were to new occupiers. We added 8 new occupiers, bringing our occupier roster to over 200 of the world's leading corporates. Deal traction came from anchor sectors including tech, financial services and banks as well as from high-growth sectors like SaaS, logistics and e-commerce. In another clear indication, multiple occupiers have retracted their previous exit or downsize notices and, in few cases where occupiers already exited during the pandemic, they are now looking to re-lease space with us. So far, we have received 8 such requests relating to over 300k sf leases as these occupiers reassess their office needs, led by rapid business growth and improved visibility on their future plans. The combination of increasing demand from new as well as existing occupiers underscores our firm belief that, in India, 'the office is here to stay and grow'.

We remain fully on track with our previous guidance on escalations, expiries, and renewals for this financial year, these details are also included in our earnings materials. With regard to our new leasing for FY2022, Aravind had laid a guidance of 400k sf during Q1 earnings call in July last year. Of this, we have already achieved ~700k sf of new leasing YTD and, factoring our current deal pipeline of ~400k sf, we are raising our guidance and are now targeting to achieve over 1 msf new leasing for the full year, a significant increase compared to our initial guidance. While the recent Omicron wave may result in short term delays in deal signing, we continue to see an increase in enquiries, inspections and RFPs from occupiers from a range of sectors.

The Indian office market is well on its way to a demand rebound with improving business sentiments, increased offshoring and robust hiring, especially in the tech sector. As per independent market research reports, calendar 2021 saw a gross absorption of 38 msf with Q4 alone contributing to half of this. With 24 msf of RFPs currently active in our four markets, we expect a continuation of this recovery trajectory, and Bangalore is expected to be at the forefront of India office demand recovery given its well-established tech and start-up ecosystem. Bangalore contributed to over a third of pan-India office absorption in 2021 and currently accounts for over 60% of pan-India active RFPs. Our 74% concentration to Bangalore market, therefore, continues to be our major strength and a significant differentiator for us.

Moving to our organic growth updates

During the quarter, we successfully delivered a state-of-the-art 1.1 msf campus to JP Morgan at ETV. This has been possible due to the seamless integration of on-ground teams soon after acquisition last year and the successful execution despite Covid disruptions. Given this excellent result, we have commenced the next phase of growth at ETV with the development of 1.9 msf Block 8 office buildings as well as 'Central Garden', an 8 acre central attraction zone with world-class amenities such as an open amphitheater, sport zones, F&B and sit-out areas. These initiatives, along with the recently inaugurated pedestrian skywalk, are aimed to further enhance ETV's competitive advantage for years to come.

Beyond ETV, we also continued with construction at full pace with peak labor strength across our sites for the ongoing 4.6 msf on-campus projects. The upcoming buildings at Embassy Manyata and TechZone, totaling 1.9 msf, are on-track for delivery in 2022. We are also exploring redevelopment of 400k sf across two of the earliest blocks at Embassy Manyata, with potential to more than double the current leasable area to ~1 msf and thereby create long-term value. We are currently evaluating the timing and financial considerations and will keep you updated as we progress.

Further, we are on-track for a June 2022 launch of our 619-keys dual-branded Hilton hotels at Embassy Manyata and handover to Hilton team is currently underway. Both these hotels significantly add to the overall business ecosystem offering of Manyata, our largest property, and increase entry barriers for other competing office properties for many years; thereby enhancing our office leasing efforts. The hotel has already finalized long term contracts with over 50 leading corporates, and further discussions are underway. We believe that this launch is well-timed as the hospitality sector is witnessing a gradual demand recovery. Worthy of note is that our two operational hotels turned EBITDA positive in Q3, driven by an increase in occupancy; and while there may be short-term blips with the new Omicron variant in this quarter, the underlying trend continues to be positive.

Another organic growth initiative that we have undertaken is closely linked to our broader sustainability strategy. We have placed a contract for one of Asia's largest solar rooftop projects with over 20 MW in scale and over 30% projected IRR. This project entails installing solar panels across 8 of our properties. We have already secured green financing at sub-6% and are targeting to complete installation by early 2023. Post commissioning, over 40% of the total baseline power consumption of our business parks will be serviced by renewable energy.

Finally, an update on our acquisitions initiatives

Growth is a key focus area for us and in addition to the ROFO opportunity which Mike noted in his earlier remarks, we continue to actively evaluate acquisition opportunities in the market. Our acquisition strategy is based on our previously stated criteria of high-quality, large-scale business parks located in the right micro-markets of the top 6 Indian cities. Our business scale, understanding of the office sub-markets, on-ground network and relationships, our strong balance sheet and well-established access to capital markets helps us pursue opportunities that are accretive to our Unitholders.

Given it has been a year since we acquired the 9.2 msf marquee ETV property for ₹97.8 billion, let me give you a 12-month update. Since acquisition in December 2020, despite the pandemic, we have increased occupancy by 120 bps to 99%, have added four new growth occupiers and have delivered the 1.1 msf JP Morgan campus within budget. We have also kick-started the next growth cycle at ETV with the launch of 1.9 msf new office development, and our showcase 'Central Garden' infrastructure initiative. Construction of 518-keys dual-branded Hilton hotels is planned to commence later this year. We are also exploring additional FAR opportunities which could further increase leasable area and potentially enhance value. As you can see, we have delivered better than underwriting on a number of metrics.

Looking beyond the ETV acquisition, on our December 2019 forward purchase of M3 Block B totaling 0.6 msf at Embassy Manyata, the pandemic and regulatory dependencies have both led to delays in pre-construction approvals. For our October 2020 acquisition of CAM businesses of Embassy Manyata and TechZone properties, we have achieved higher than underwritten EBITDA. Our strategy of owning and controlling the facilities management of our properties is also very beneficial during our occupier and leasing discussions, especially with the ever-increasing focus on wellness and safety.

To conclude, we remain confident of a strong rebound in office demand, the best-in-class quality of our portfolio and the opportunity to consolidate market share given supply constraints. New business growth and need for higher quality offices are the consistent themes during our discussions with occupiers. We remain focused on delivering the next phase of business growth.

Over to Aravind now for the financial updates.

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Aravind Maiya
Chief Financial Officer (CFO)

Thanks, Vikaash. Good evening everyone.

We continued our resilient financial performance in Q3. Key financial highlights for this quarter include:

- Grew Net Operating Income by 30% YoY to ₹6,213 million, with operating margin of 84%;
- Announced distributions of ₹4,929 million or ₹5.20 per unit, with 83% as tax-free to Unitholders;
- Refinanced ₹36.5 billion zero-coupon bond ('ZCB') at 6.5%, delivered ~300 bps refinancing spread;
- Maintained a strong balance sheet with low leverage of 24% and ₹116 billion debt headroom to finance growth; and
- Enhanced our full year FY2022 guidance for both NOI and distributions, reflecting pick-up in new leasing activity.

Let me take you through the details.

First, an update on our Q3 Income Performance

- **Revenue from Operations** grew by 31% YoY to ₹7,409 million, reflecting rent escalations on 1.8 msf leases, ramp-up in hotel occupancy and revenue accretion due to Embassy TechVillage and other completed acquisitions in the previous financial year. The impact of these positives was partially offset by a decline in occupancy since the start of the Covid pandemic.

- **Net Operating Income ('NOI')** grew by 30% to ₹6,213 million, in-line with increase in our Revenue from Operations. Our NOI margins continue to be best-in-class at an impressive 84%, reflecting both the scale and efficiency of our business, as well as our low fee structure. Our EBITDA grew by 26% to ₹6,109 million, in-line with the NOI increase.

- **Net Distributable Cash Flows ('NDCF')** grew by 14% to ₹4,927 million, mainly reflecting the accretion due to Embassy TechVillage and other completed acquisitions in the previous financial year. The impact of these positives was partially offset by the interest payments on our new coupon-bearing bond given our recent ZCB refi on 2-November. Further, the Board of Directors have declared a Distribution per Unit ('DPU') of ₹5.20 for Q3, representing a 100% payout ratio. With this, Embassy REIT has now cumulatively declared YTD distributions of ₹15,640 million or ₹16.50 per unit.

- **Tax-Free Distributions** grew to 83% in Q3, one of the highest in the industry. Further, we remain on track to collapse our legacy two-tier holding structure of ETV property and expect to receive necessary approvals by June 2022. Post this restructuring, around 85% of our distributions are likely to be tax-free, thereby enhancing the overall post-tax distributions yield for our Unitholders.

Moving to our Balance Sheet updates

- During the quarter, we raised ₹46 billion debt at 6.5% to refinance our in-place zero-coupon bond, thereby consolidating our entire REIT debt to coupon bearing instruments and simplifying cash flow-through for our distributions. This early refinance, through a significantly lower cost debt of 6.5%, helps us achieve an impressive ~300 bps or ₹1.3 billion proforma interest cost savings annually. The ₹46 billion debt raise saw participation by large domestic mutual funds, insurers, banks and corporates, demonstrating the increasing acceptance of REITs in India and further deepening our debt pool to fund future growth opportunities. In addition to this refi, we also successfully re-negotiated ₹21.5 billion of our existing term loans with current lenders to achieve 6.5% interest cost, a positive spread of ~60 bps. With both of the above, our overall debt cost at the REIT level is now down to 6.6%, significantly lower compared to 9.4% debt cost for the initial ZCB at IPO.

- As part of our overall ESG roadmap and commitments thereon, we successfully secured ₹4.9 billion of our debt at ETV as green loan from a leading global bank under their 'Green and Sustainability linked' financing program. This is first of our many initiatives to achieve ₹10 billion cumulative green and sustainable financing by FY2024.

- As you can see, our recent debt raise and planned ZCB refinancing has further strengthened our balance sheet, with low leverage of 24%, and staggered our debt maturities, with less than 2% of our debt maturing over next 18 months. We currently have ₹11 billion of liquidity and continue to maintain AAA credit rating as an issuer. Further, 63% of our total debt is locked-in at a fixed interest rates which will significantly help optimize our debt costs, especially in an environment where interest rates are anticipated to rise. Additionally, our proforma debt headroom of ₹116 billion provides us flexibility to capitalize on growth opportunities as laid out by Vikaash earlier.

Lastly, an update on our FY2022 Guidance

As you are aware, previously during the Q1 earnings call in July 2021, we had provided our full year FY2022 guidance comprising a mid-point NOI of ₹23,700 million and a mid-point DPU of ₹21.50 per unit, both within a range of +/-3.5%. We have now updated our numbers based on our YTD performance and I am happy to share that we are raising our full year NOI and DPU guidance. We now expect a mid-point NOI of ₹24,500 million and a mid-point DPU of ₹21.70 per unit for the full year FY2022, both within a tighter range of +/-1.5% - this translates into a 3% increase compared to our previous NOI guidance. This upward revision in guidance, despite the recent Omicron wave, mainly reflects the positive uptick in leasing activity we have achieved, apart from improvement in our other business segments. However, please note that our guidance is subject to the evolving nature of the pandemic.

To sum up, we remain in great financial shape and continue to deliver on our NOI and distributions. Further, as mentioned by Vikaash earlier, both our acquisitions in FY2021 have delivered better than our underwriting and have been accretive to both NOI as well as distributions. As we evaluate new growth opportunities, we remain focused on financing these through an optimal mix of equity and debt to ensure that it is accretive to our existing Unitholders.

Over to Mike for his concluding remarks.

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Michael Holland
Chief Executive Officer (CEO)

Thank you, Aravind.

So, another very solid and encouraging quarter. The highest level of new leasing in nearly two years, delivery of our NOI and distributions, increased guidance for the full year, delivery of the JP Morgan Campus, an industry leading ESG roadmap and line of sight to potential acquisitions-led growth from an additional 5 msf campus in Chennai.

The current Omicron blip has a short-term timing impact on 'Return to Office' and deal signings by our corporates, but the necessity for quality office spaces has been reinforced by global digitization and technology adoption, as reflected in our leasing performance this quarter as well as our strong demand pipeline.

We continue to expand our tenant base and solidify our relationships with over 200 existing corporate occupiers. We are on the path to further grow our business by developing and acquiring quality properties and to reinforce our position as the landlord of choice and scale for leading global corporations.

Let's move to Q&A.

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QUESTION & ANSWERS SESSION

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Two questions from me. The first one is as you evaluate the ROFO opportunity, what does your playbook for acquisitions look like, both from an operational and financial metric perspective? And then second, would appreciate if you can give us some more color around what happens to new leasing decisions because of the Omicron wave? Is it fair to assume that the push out would be comparable to return to office plans or is it just a physical constraint around signing new deals for now?

Michael Holland: Thank you, Kunal, for those questions. Just a small point. A number of us are in different locations, so if you'll just excuse a little gap between any sort of Q&A. I'll take the second question in terms of leasing decisions and then I'll ask Vikaash to talk about the ROFO play book. So, Kunal, in terms of leasing decisions, we think that the principle, around whether or not corporates are taking extra space with the additional growth base, is not changing. What is happening in these last four weeks is that there's a disruption to the administrative side of getting business done, getting leases executed, getting the formal approvals. So we do think there'll be a slight delay in closing some of the deals and we've already seen that in the last two or three weeks. But overall, we'll see maybe a four to six week delay in actual closure on deals. As I say, we do have a strong fairly advanced pipeline of between 300,000 and 400,000 square feet for this quarter and we're very encouraged by the quantum of RFPs that are out there in the market as Vikaash outlined. So we think the decisions aren't changing, the administration perhaps is getting slightly delayed. Vikaash, would you like to comment on the ROFO thought process?

Vikaash Khdloya: Sure, Mike. In terms of our acquisition strategy, as we previously articulated, we look at geographies where our customers want to be, and we are focused on the top six cities. What we look for is large scale, high-quality or tenanted properties, ideally with a mix of both completed and on-campus development. I spoke about ETV doing better than underwriting and today we are on the lookout for similar large scale resilient assets which fit well into our portfolio. Our balance sheet strength, which Aravind spoke about, really gives us access to capital and it will depend on the specific deal as to how we structure the optimal mix of debt and equity. In terms of this acquisition, the opportunity that we have received, we are aware of the property. We will now start our evaluation, but this is one of the properties which has great international occupiers, particularly from the banking, automotive and services sectors. The key considerations remain valuation, structuring the deal and how we finance it through an optimal mix. So given we have just received the ROFO notice, we will commence our assessment, but underlying theme for us is how well does it fit into our portfolio and if it is accretive to our Unitholders.

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

Puneet Gulati: My first question is on Manyata. If you can give more color on how the discussions are progressing for leasing that property out? The second would be on Quadron. That property has continuously stayed at below 50% occupancy levels – if you can give some color on what are the plans for that and how should we think about it going into next year and the year after? And third, if you can give more color on the nature of occupancy in Hilton Hotels, is it largely business travelers or is it occupied more by leisure travelers?

Michael Holland: Vikaash, can I ask you to comment on Manyata and Quadron in terms of pipeline and the work that we've done at Quadron?

Vikaash Khdloya: Sure, Mike. Let me take Quadron first. So Quadron is a business park we own in the west of Pune. We did see an exit and a relocation from a large occupier in early part of last year. Since then, we have undertaken a complete repositioning and upgrade of the asset. So that has come out quite nicely and you may refer to some of the pictures in our last quarter's deck. The feedback that we have got has been very positive and now we are seeing early traction. We recently signed with a telecom operator two quarters back and now they are likely to grow with us with another 50,000 square feet. We have in the past seen tangible benefits post refurbishment in our other assets like the 247 Park in Mumbai and we are confident that we'll replicate the success here. As we see the deal activity pick up especially from the technology and the IT services players, we think this park and the West Pune (Hinjewadi) is really well placed to capture that demand. So we are taking a little more forward-looking view on this and we think the occupancy will quickly ramp up once we see the services sector players starting to take space in Pune.

On Manyata, actually it's interesting that you brought up that question. Just taking a step back, let me give you a quick update on where we are at Manyata today. Manyata today is about 88% occupied with about a million square feet of vacancy – this is factoring all the exits that we will have upto Q4. There are a couple of things that we are doing in Manyata. One, we have leased year-to-date about 225,000 square feet of space and this has been significantly higher than the market rent of ₹93 assessed by CBRE. We have also renewed about 570,000 square feet year-to-date with a very impressive renewal spread of 42%. We've seen an exit by one large legacy occupier in Manyata where the rents were significantly below market with about 150-200% mark-to-market opportunity. We are doing a couple of things. We think the asset is really well placed. We've seen the recent infrastructure initiatives on flyover. We also have the Hilton Hotels which are opening up which we believe will help in our leasing initiatives plus we are currently refurbishing some of our vacant buildings so that they are ready to be leased out as and when the demand picks up. In addition to that for some of the older blocks, as I mentioned during my prepared remarks, we have an opportunity to undertake redevelopment. So while we are assessing for 400,000 square feet of the earliest blocks of Manyata right now, we have a couple of other blocks where we have the potential to double the FAR and the leasable area. So what we're doing as of now is we are seeing how the demand pans out. There is an early stage pipeline of about 1.2 million square feet that we are in discussions with for Manyata. Seeing how this demand traction pans out, we will take a call on the timing of redevelopment versus refurbishment. We remain very positive of the way Manyata as a park has shaped up. It's the largest asset in the REIT. And notwithstanding the FY'23 expiries and we have about 800,000 sf of that, if I could refer you to the supplemental data book, we think there's a huge opportunity because of the mark-to-market rents on the existing vacancy as well as any vacancy that may come up from the FY'23 expiries. So as and when demand picks up and it certainly will, we think Manyata will be a huge beneficiary of that.

Michael Holland: On the hotel question, it's a mix. We mentioned that we saw a good encouraging quarter to the end of December with 37% blended occupancy. Slightly different profile of occupiers for Hilton and Four Seasons and a slightly higher occupancy at the Hilton GolfLinks – about a 45% occupancy and half of that was corporate and the balance was staycation type of occupiers. The Four Seasons on the other hand was much stronger in the Groups and vacation type of space, much more suited to those high-end group events. So encouraging trends in Q3. Clearly, we've seen a tail off over the last three, four weeks but we're confident over the medium term that these numbers will improve.

Puneet Gulati: If I can squeeze in the fourth one, you also talked about a 20 MW solar project. Should we think of it as a business model similar to what you have right now, or will it operate under different metrics?

Michael Holland: Yes, we've identified approximately 30% IRR on that. It entails about ₹98 crores of CAPEX, which as Aravind mentioned, we've funded through a green bond deal. So very appealing. It helps us to increase that renewable energy proportion in the portfolio. It feeds the common parts of the buildings and is in addition to the existing 100 MW plant which has been running since our IPO.

Puneet Gulati: So basically the capacity would go up from 100 to 120, that's how I should think of it?

Michael Holland: That's correct. And I think if you look at and compare the proportion of renewable energy that's utilized in Embassy REIT with pretty much any other commercial office portfolio in the country, we really are leading the way as part of our overall ESG efforts, and this is just another that piece that we explore.

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

A Chattopadhyay: My question is pertaining to the Hilton Hotel which is now opening up next year. Given the situation on COVID, how do you see the initial occupancy ramping up and any initial losses or anything, how would you want to recoup that – is there any arrangement with the hotel operator which you could share? Second question again is on the hotel at Embassy TechVillage, which you will start constructing shortly in next year. If you could share the estimated CAPEX per room. I know that you may put the disclosure afterwards but if you could just give us some sense of the range of where the budgeted CAPEX would be for that asset?

Michael Holland: I can comment from a qualitative perspective and then I'll ask Aravind to speak on the numbers. I want to give you two examples. In the last 24 hours, we have had two corporates; one, very large US banking corporate, and another a very small diplomatic type of operator, looking at our office premises and both of them have given really positive feedback about the fact that we're able to offer these conferencing and hotel facilities as part of our office offering. We would love you to come down and take a look at the new conferencing facility at Manyata which will be open by May. We believe that it's going to give us a very strong competitive advantage in the office leasing market as well as the fact that there is nothing in the vicinity to match the size and scale of the conferencing side and also the hotel with its two price points. And the same comments would apply to the planned hotel at TechVillage which is probably three or so years away. But from a qualitative perspective, this is all part of reinforcing and strengthening the competitive advantage that we have at Manyata.

Aravind Maiya: We are still working out the numbers in terms of the budget and we're in the process of finalizing it. So we will put it out probably next quarter when we launch it. But from a broad perspective, you can look at the cost that we're incurring in our Manyata project, but of course the cost would be a little escalated considering it'll be a more recent project. So that's the broad guideline I would give. And in terms of the numbers, we will come out with a more formal guidance next quarter in terms of the overall business which will include what will happen to the overall hospitality. But purely from an economic perspective, Hilton is the operator which is entitled to a percentage of the revenues in NOI and all the other economics will belong to us. As Mike said, we are pretty positive on how this will add value to the Manyata Park as well as we believe that the hotel per se on an individual basis should do reasonably well.

Vikaash Khdloya: If I may add, we've seen that for breakeven, we need to achieve somewhere between 35% to 40% for our Hilton EGL and based on the 50 corporate contracts that we've already signed and some others in the pipeline, that would roughly translate to about 35%. So while we lay out the formal guidance next quarter, the hope and the target would be to breakeven in the first year itself and ensure that there is no cash loss for the Manyata Hotel.

A Chattopadhyay: For the new leases which we are signing, what would be the rent-free period or when would these commence? And also considering Omicron impact, could you just give us a broader sense regarding what is happening with it?

Vikaash Khdloya: So on the new leases, all that we have signed so far as well as on our pipeline, we have not seen any impact on the rent free. Our rent-free ranges anywhere between two and a half months for really small quantum of space, let's say in front office format in Mumbai, to about five to six months for really large 400,000 to 600,000 square feet kind of leases. We have not seen any change in that. I'm guessing it may get pushed out by let's say 15 days additional across but not more than that simply because both our construction work for our 4.6 million square feet as well as the fit-out work is being permitted despite the lockdown.

A Chattopadhyay: So there is no change on account of Omicron, just except for the two weeks sort of delay which you mentioned?

Vikaash Khdloya: Yes, we have not seen any impact in terms of the rent-free period because the occupiers have generally made the decision that they need the space and there are more and more talks of those. They're looking beyond the short-term blip of Omicron and looking at how to cater to the people they've already hired over the last 18-months. So they are in a higher urgency than us. Even for the large global occupier that we just leased out space, they are well underway on their fit-out work.

Moderator: Next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: So firstly, in terms of expiry we note that a large chunk of Embassy Galaxy is up for expiry in FY'23 where the in-place rents are also significantly below the market rentals. So any thoughts or early discussions with the tenants with respect to renewals? Similarly, even Quadron has a large chunk for renewal next year?

Vikaash Khdloya: While we will lay out a formal guidance next quarter on our expiries and the way it's shaping up in terms of renewals and possible exits, I just wanted to make two points. One, on the current year exit and expiries, we are absolutely in line and on track with what guidance we read out at the beginning of the year and there have been no changes to the 1.3 million square feet exit that we had mentioned, and we see that as a very positive trend. Coming to FY'23, if I can refer you to slide 28 in the earnings deck, there are about 2.9 million square feet of expiries in FY'23. While it's a bit early to say and we are engaging with the occupiers, we are really encouraged by the growth that we have seen in our tenant base, and we certainly expect to see an improvement on FY'22 exit percentage of the overall expiries given all the positive trends that we're speaking about. Coming to the two specific assets you mentioned, Galaxy and Quadron, while we'll defer any comments till the time we sign binding documents, but a large chunk of the leases that are coming up for expiry at both these parks, are already under discussions with occupiers and we expect an encouraging outcome.

Amandeep Singh: Secondly, this quarter you saw uptick in occupancy at Embassy One and FIFC. So in that context can you help us with your thoughts on the RFPs along with update on other assets like Embassy Oxygen?

Vikaash Khdloya: We have been very pleased to see some leasing kick-start at FIFC. It's a fantastic asset and we've got a really high quality occupier that we've disclosed, we leased out some space to ICICI Securities here. Similar is a theme with Embassy One, where we've leased out to Hyundai, it's one of the important office locations for them. In general, what we're seeing is a demand for high quality office spaces post start of COVID, even if it's at a premium positioning. A certain segment of occupiers are really keen to be in these locations with these assets and both FIFC and Embassy One are premium products. In terms of pipeline, we have got very encouraging pipeline at both of these properties, especially at Embassy One, where we have recently seen a number of enquiries and there are significant amount of discussions underway So we'll keep you posted in the next couple of quarters, but we see it as an encouraging trend, especially for our Bangalore properties.

Amandeep Singh: A quick comment on Embassy Oxygen maybe?

Vikaash Khdloya: There are a lot of good initiatives that have been taken by the government in terms of the infrastructure, in terms of the recent announcements. We have really focused on building a world-class Phase 2, i.e., the last tower which is currently under construction and it's coming up. Right now, the traction is yet to build up for the asset. We think it will come after one or two quarters post we see a pick-up in other cities like Pune, following Bangalore. So there's nothing which I can say which is in advanced pipeline right now but with the last tower which is about 700,000 square feet coming up and with the recent announcements and the infrastructure challenges some of the occupiers mentioned in Gurgaon, we think in the medium term over the next three to four quarters, we will be able to secure large global occupiers like we did in Tower 2 in Oxygen last year, but we'll just have to wait for some more time. In the past, during this same year, we leased out about 63,000 square feet to a top-10 global healthcare provider, but we'll have to wait a little bit more before we see further traction here.

Moderator: Next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: I just have one question which is kind of purely mathematical since you've answered all others. Aravind mentioned about the AAA rating and the rating rationales talk about 85% occupancy level. Would you be able to give any guidance on the kind of occupancy levels you will maintain over the next quarter or going to next year, given that there are many vacancies and re-leasing conversations?

Aravind Maiya: So in terms of occupancy, as Vikaash and Mike mentioned, we are as of now at 87%. What's interesting to note in terms of the FY'22 expiries is that a lot of these expiries have already played out and there is very little left in terms of expiries coming up for the fourth quarter. More importantly, in terms of the leasing pipeline as well, as we've reported, there's around 400,000 square feet of pipeline which is currently under discussion. So, all in all, Vivek, as we look forward into the next quarter as we end the year, we believe that the Q3 occupancy of around 87% might be the lower end of the occupancy level and we see these occupancy levels going up from here onwards.

V Ramakrishnan: You had mentioned, Aravind, the importance of the AAA rating. So would you keep the occupancy level percentage on a sustained basis, would you keep that as a back of a mind situation, of course, you don't want the REIT to be unoccupied, but is 85% an important number for you?

Aravind Maiya: Yes, absolutely, Vivek. So in terms of the rating rationale from our rating agency CRISIL, they do understand that the current environment is more a temporary phenomenon. But if the levels drop below 85% on a continuous and sustained basis, that is when they would look at relooking at the AAA rating, which we believe will not happen in the current scheme of things.

Vikaash Khdloya: Vivek, just to add to what Aravind said, of course the AAA rating and optimizing our debt-to-cost are important to us. But from a business perspective, the way we look at deals, pipeline and when we negotiate is, if this the right kind of occupier, will this occupy grow, what is the covenant of the occupier and other rent, and does it make sense to transact at these rents. If you've seen the trend over the last three years, we've stayed away from doing desperate deals and we are happy to wait patiently because we are very confident of the product offering as well as the micro markets we are in. So it's a combination of both what Aravind mentioned as well as on the business, but end of the day, every new lease has to make business sense. Even for the exits that we have seen, those have been calibrated decisions to ensure that we maintain or achieve the mark-to-market, and if some occupiers are not willing to pay those, we are happy to take a call to churn them and have new-age occupiers who can pay for the rents that the asset commands.

Moderator: Next question is from the line of Chandrashekar Sridhar from Fidelity International. Please go ahead.

C Sridhar: I had a few questions. One was on the vacancy which has obviously come in Manyata over a period of time. How easy or difficult is this to splice this space up into multiple occupiers or do you need a similar kind of an occupier to the one which left to take up that large amount of space? Second was on the supply, you are yourself bringing about 3.5 million square feet of supply in Bangalore between FY2023-25, which is about 1.2 million square feet per annum. The average addition in Bangalore would be about 12-13 million square feet, how much of this supply share is yours on a prospective basis versus where you were historically? And third one was just the NOI increase is not translated into that much of NDCF increase in the guidance. Is this primarily because of the offset from the interest bearing debt? The last question was if I were to slightly take a longer term view and look at the market trends across your properties over the last couple of years, they've pretty much been where they were, maybe Manyata moved up a bit and Hinjewadi came down. Given where we are from a vacancy perspective across most of the markets, is it a fair assumption that while you still have your mark-to-markets, the market rents itself across most properties shouldn't really be heading higher?

Michael Holland: Let me just deal with market rents and I'll ask Vikaash to talk about the work that we're doing on Manyata. Over the last couple of years, what we've all been doing is ensuring that we maintain our rentals, that we've secured those escalations that are there contractually, and that we've endeavored to maintain occupancy and as Aravind mentioned we think that now we're probably at the nadir of occupancy. Rents have been flat in most locations at a market level. Frankly, there was an expectation in many parts of the market that we would see significant rental fall.

That's not something that we've seen in most of our portfolio. Particularly in Bangalore, the data shows that we've been able to maintain and in some cases increase rentals on the new deals. I think we're going to see some opportunities for growth over the next 12-months, given what we expect to be a fairly rapid acceleration in the demand side in the early part of the next financial year. So I think rental growth is still going to be there. We've seen some good rental growth at TechVillage on the deals that we've done off late and we think that's just going to get better over the coming months. Vikaash, you want to talk about the different elements of Manyata and what we're doing to make that appealing to different types of occupiers?

Vikaash Khdloya: To sum it up, we currently have about a million square feet vacant at Manyata and in the coming year FY'23, we have expiries of about 780,000 square feet. Obviously, there will be a component of renewal as well in these and some exits but just for the discussion's sake, we have about a million and a half square feet on a pro forma basis vacant to lease in Manyata. We have done a couple of things here during the pandemic over the last 15-to-18-months. One, we have really re-evaluated all that we can do on the upcoming as well as existing vacant spaces and we have a full refurbishment program in place which is already underway to ensure these properties are ready to lease up as and when demand picks up. To your question on is it model to a specific occupier need or are the floor plates usable by others. Manyata has really large clean floor plates and they can be pretty much used by any other occupier as and when they come. So we don't think any retrofit or customization is required or we have to undo any earlier customization. Interestingly, what we are also doing is across four blocks, while we mentioned two blocks of 400,000 square feet, we have potential to also double our leasable area. Manyata does have unutilized FAR on an overall park basis, especially for some of the earlier blocks which are of five or six floors. So we are doing that assessment right now. As we firm up a plan and get ready for the 1.5 million square feet till March '23, we would take up some component of the redevelopment opportunity to create overall value. Given the infrastructure that we have already put in place, the flyover, the upcoming hotel and the upcoming retail of about 90,000 square feet, we feel pretty good about our discussions. Today, I was speaking to the business head of one of our largest banking occupiers in Manyata and they are looking to double their headcount and there's an RFP out for a space take up in early 2023. So we feel good. The beauty of Manyata is with its 45 occupiers, a lot of them will grow and as the numbers of ramp-up 'back to office' improve, we'll see a lot of them taking up more space. So we'll see multiple smaller deals of 60,000 to 100,000 square feet in Manyata and we are targeting that, by the end of this year, we ramp-up Manyata's occupancy back to the early 90s that we used to see earlier.

C Sridhar: So, it can be spliced up if need be.

Vikaash Khdloya: Absolutely, Chandra. Even during the discussions on exit or new leases, we have ensured that we don't have partial exits or partial leases or inefficient floors being exited. So we're in good shape there.

Michael Holland: To summarize, Chandra, we can offer floor-by-floor, we can offer standalone buildings, we've got co-working space, we've got new build opportunities and land that's available for that. And that really is part of the beauty of the scale of the portfolio that we've got. We're able to offer a flexible solution to an occupier to bring them in and then we see them growing with us for the long term. Manyata is a good example of that.

Vikaash Khdloya: Chandra, we have an active pipeline in Manyata – some of it preliminary but about

1 to 1.2 million square feet. We just need to work through and see how fast we can push through some of these to deal closure.

In terms of supply, Bangalore has been one of the stable markets because it's a more mature market and there's more controlled supply by the existing developers. Whether we take the CBRE forecast or any other market player, it's roughly estimated that there'll be 12 million square feet supply next year and demand is also expected to be around 12 million square feet. So we are looking to ensure that we bring up our new supply as soon as possible to the market. Of the 12 million square feet, there are very few which are high-quality large-scale campus style offerings . We have a couple of other players who are doing decent work in good quality spaces. But in micro markets like ETV, considering the amount of RFPs open today versus the vacancy, we feel really good about the new supply and the challenge is to get it and deliver it as fast as possible. So we're not overly worried. What we have done in our construction program is that we have incorporated and enhanced some of the wellness and ESG requirements that we stipulate for our buildings. As we move forward, with large banks and technology companies looking for RFPs, we feel good about both our supply vis-à-vis how we stand in the market, even the Bangalore market given that it's expected that there will be some supply from other developers.

Aravind Maiya: Chandra, just to answer your question on the NOI, two perspectives. One, when we look at the Q3 numbers, yes, it reflects the impact of the coupon bearing debt into the NDCF but from a projection point of view, there's a 3% increase in NOI versus a 1% increase in our distribution, that's largely coming because a lot of these new lease-ups start generating cash rent from approximately April '22 onwards. So that's the delta what you see between NOI increase versus DPU increase.

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

Pulkit Patni: Is there any change in the way we are structuring our lease agreements with new tenants in terms of force majeure if there's a fourth, fifth wave of COVID or escalations being more back-ended as they also test the market or are they pretty much the same as pre-COVID?

Michael Holland: The answer is the latter. It's very similar to what we've had before, no principle changes to force majeure and certainly not anything changing on the escalation side of things. What has changed is that we're adding into all of our leases, various clauses that relates to what some people call green leases. So every new lease that we do now includes those provisions for the tenants to provide certain data around energy, water and waste usage and vice versa we share data and information with them. This allows us to build those data points into our overall sustainability planning. But in principle, that would be the only significant change to the general lease structure.

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

Kunal Lakhan: Just a follow up on the supply question earlier. Just wanted to understand firstly how is the occupier preference towards newer assets which are likely to be more efficient versus the existing assets – do they prefer to be in new buildings versus the older parks? And secondly, with a overall high supply expected, will the occupancy rates really bottom out say in CY2022? And thirdly, there's a fair bit of supply which you yourself highlight is not comparable to these but it's still quite significant; 39 million square feet. So what does this do to the overall vacancy levels and rentals in the micro markets?

Michael Holland: I think that one has to put oneself in the shoes of our type of customer, the lessee of our building who are, not exclusively but largely, international corporations. And you'll agree that those types of companies are having ever higher and higher standards in numerous areas like health and safety, comfort for their staff, wellness, energy efficiency, the ability to provide amenities to their staff and so on. That's the type of tenant that we're offering our product to, and they are the types of tenants that are seeking our type of products. Those types of tenants, and we've got over 200 of them, are not going to go to a sub-standard multi-owner strata sold, inefficient building, because the rental is cheaper. So this plays to the theme that we've often spoken about, this concentration of demand into fewer, larger, more institutional asset owners like ourselves. And that's a clear theme that is broadly seen and accepted in the market. We think that tenants are looking for more environmentally friendly buildings, they're looking for more energy efficiency. We have a program around that as part of our ESG program. Much of the capital spend that we've looked at over the next three years for those refurbishments, which might include chiller replacements to get more efficiency and so on, we're able to recover those costs ultimately from the tenants. We've got a program of around ₹275 crores over the next three years and it's pretty much a wash in terms of cost recovery. So we are investing in keeping our buildings, our products, our overall ecosystem up to the market and up-to-date. For example, the hotel or, as Vikaash talked about, the green areas at TechVillage, the sport zones and so on. That is the way that we believe we're going to maintain our competitive edge and maybe even increase that moat. On occupancy, we've done the numbers – our view at present is that we're at the bottom with our current 87% and we're feeling really good about the years to come.

Kunal Lakhan: So you're saying that your numbers do factor in the supply which will come into the overall system, which will have some impact on the overall rentals and occupancy levels, but it's unlikely to impact yours?

Michael Holland: What we've done, and we do every quarter consistently, is that we look at what's the comparable supply in our market and in our sub-markets and we know specifically the buildings that we're competing against in any particular market. If you look at the supply that's coming forward in say Bangalore and look at the typical demand side, it's fairly well-balanced. There are some cities across the country that may have significant supply-demand mismatch, the most egregious of those we're not in those cities. So we're comfortable with the overall situation and yes, we have built that new supply into our assumptions.

Moderator: Ladies and gentlemen, that was our last question for the day. I now hand the conference over to Mr. Mike Holland for closing comments. Over to you, sir.

Michael Holland: Thank you sincerely to each one of you for your questions and for your ongoing interest. As you can tell, we're very encouraged about where we're at and a lot of these data points that we've spoken about are on our website and in the published materials. As you're aware, any one of us who's spoken on the call, as well as Abhishek or Ritwik, we're always available if you've got any further questions. So with that, thank you very much. Good evening and have a great weekend.

Moderator: Thank you very much, members of management team. Ladies and gentlemen, on behalf of Embassy Office Parks REIT, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.