Embassy REIT

Q3 FY2024 Earnings Call

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CORPORATE PARTICIPANTS

Aravind Maiya – Chief Executive Officer (CEO)

Abhishek Agrawal – Chief Financial Officer (CFO)

Ritwik Bhattacharjee – Chief Investment Officer (CIO)

Sakshi Garg – Investor Relations Manager

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for Embassy REIT's third quarter FY2024 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 – Ms. Sakshi Garg, Investor Relations Manager for Embassy REIT. Mam, you may begin.

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Sakshi Garg

Investor Relations Manager

Thank you. Welcome to the Q3 FY2024 Earnings call for Embassy REIT.

Embassy REIT released its financial results for the quarter and nine months ended December 31, 2023 on last Friday. As is our standard practice, we have placed our 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, any financial guidance and 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 information and there can be no assurance that we will be able to achieve the same.

Joining me today are Aravind Maiya, our CEO, Abhishek Agrawal, our CFO and Ritwik Bhattacharjee, our CIO. We will start off with brief remarks on our business and financial performance and then open the floor to questions.

Over to you, Aravind.

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Aravind Maiya

Chief Executive Officer (CEO)

Thank you, Sakshi.

Good evening and thank you all for joining us today to discuss our quarterly results.

Q3 was our best-performing quarter till date in terms of total lease-up, and I am happy to report that we have met our full-year leasing guidance within 9 months. We created a new record by leasing 3.5 msf this quarter, including 3 large pre-leases totaling 2.2 msf. In addition, we delivered a largely pre-leased new office tower of 0.4 msf in Bangalore and announced distributions of ₹5.2 per unit. As anticipated, our portfolio occupancy picked up marginally, closing at 84% at the quarter-end. With the strong market demand dynamics as well as the recently announced amendment to the SEZ rules, we are well positioned to continue this growth trajectory. Overall, we remain on track with our FY2024 financial guidance.

On the macro front

CY2023 was a year of rebound for the Indian office real estate. With annual gross absorption within striking distance of an all-time high of 60 msf, India was one of the best-performing office markets in the world. The last quarter especially stood out, with an impressive 18 msf absorption and initiation of multiple Request for Proposals (‘RFP’s), which stands at 19 msf as of date. In terms of cities, Bangalore once again outshined and contributed to over one-fourth of this total leasing and 50% of the active RFPs as of date. A majority of this demand emanated from Global Captive Centers (‘GCC’s), which continue their journey to set up, expand and move towards higher-valued services in India. With another 200-300 GCCs expected to be setup by 2025, the Indian office sector is set to repeat this stellar performance in the coming years.

With this backdrop, let me now update you on our record Q3 leasing performance

- We leased a total of 3.5 msf across 22 deals. This included 1.1 msf of new leases in our existing space and 0.2 msf of renewals, leading to 35% rent reversions and a premium to average market rents.
- The highlight of this quarter clearly are the three large pre-leasing deals, totaling 2.2 msf, providing customized solutions to global tenants in our development projects in Bangalore.
    - One of Australia’s largest banks committed to 0.8 msf, along with 0.3 msf expansion options, in the D1 and D2 towers in Embassy Manyata.
    - In addition, a renowned US based tech company committed to 0.6 msf, along with 0.3 msf expansion option, in Block 8 in Embassy TechVillage, which is due for delivery in the next 9 months.
    - And finally, one of the largest American retailers committed to 0.8 msf for the whole L4 Block in Embassy Manyata, which is due for delivery in Sep’25.
    - We welcome these landmark deals which once again reflected how our high-quality business parks remain the preferred choice for the world’s best companies looking to expand their India footprint.
- Supported by these three large deals, GCCs contributed to around 80% of our total leasing, with the demand primarily driven by BFSI, Retail and Technology sectors.
- Our core Bangalore portfolio once again contributed to the majority of our Q3 leasing, with a 75%+ share.
- We are also encouraged by the early signs of recovery seen in our Pune and Noida markets, which contributed to around 0.8 msf of leasing this quarter, mainly for non-SEZ spaces. Currently, our non-SEZ occupancy stands at 92% and SEZ occupancy at 78%.
    - Of our total 4.5 msf SEZ vacancy, we have already applied for denotification of 0.8 msf fully vacant building in Bangalore, under the previous SEZ rule. In addition, we have applied for denotification of another 0.3 msf building in Pune, which got vacant post the quarter.
    - We have also applied for demarcation of an additional 1.1 msf area across our Bangalore, Pune and Noida properties, as part of our Phase 1 demarcation plan under the amended SEZ rules.
    - Of the balance 2.3 msf SEZ vacancy, 1.4 msf is in Embassy Quadron in Pune and Embassy Oxygen in Noida. We will look to apply for demarcation of these areas based on a pick-up in leasing activity in these respective micro-markets.

- Overall, we are confident that the amended SEZ rules will help us to increase our occupancy further, which we believe has already bottomed out and started growing from this quarter.

- In terms of expiries, we started FY2024 with scheduled expiries of 2.5 msf, which has now increased to 4.6 msf. The increase was majorly led by early renewals of 0.8 msf and unanticipated exits of 1.3 msf, mainly from IT services companies. This includes a 0.3 msf exit notice received in Q3 from a large Indian IT services player for a full building in Embassy Qubix. We have now applied for denotification of this building and have a strong pipeline for the same. Overall, of the total YTD exits of 2.9 msf, we have already backfilled 1.5 msf at market rents and 0.8 msf is currently under refurbishment.
- In our view, this year has been exceptional in terms of the additional unanticipated churn from IT services occupiers, which has impacted our cash flows due to temporary vacancies and the subsequent rent-free periods on the backfill. However, our IT services client exposure has now gone down to less than 12% vs 25% at the time of our listing. Also, the positive rent spreads achieved on re-leasing these areas has placed us very well for the medium-term, as we have increased our in-place rents by 10% just over the last 18 months.
- Year to date, we have already leased 6.5 msf, thereby achieving our annual guidance within 9 months. Led by this record leasing and post factoring the exits, our occupancy increased by over 100 bps in Q3 to close at 84% on a portfolio level and 85% on a same-store basis.

Moving to our development portfolio

- During the quarter, we received occupancy certificate for the 0.4 msf tower in Embassy Business Hub in Bangalore, which is leased to Philips. We expect to receive the occupancy certificate for another 0.7 msf Tower 1 in Embassy Oxygen in Noida this month.
- Our current development pipeline now totals 6.9 msf, at highly attractive yields of over 20%. Around 90% of our upcoming developments are in Bangalore, our core market, which continues to lead India’s office absorption on the back of robust GCC demand.
- Specifically, in the next 24 months, we expect to deliver 4.7 msf, across two of our largest properties - Embassy Manyata and Embassy TechVillage in Bangalore. Post the three marquee deals signed in Q3, around 70% of this medium-term delivery is already pre-leased, along with expansion options for another 10%. We believe that this growth is the key driver of our NOI and distributions expansion post FY2026.
- As we continue to deliver and lease-up this organic growth, the natural next step for us will be inorganic expansion, for which we are starting to evaluate available options.

Lastly, on our hotels

- Our hotel portfolio continued to perform strongly with a 55% occupancy and a 19% YoY ADR growth, resulting in a quarterly EBITDA of ₹50 crores.

Finally, we welcome the expansion of our public float from 30% at IPO to 92%, post the recent complete stake sale by one of our Sponsors. This transaction has positively expanded our unitholder register, which now boasts of many large global long-only funds, sovereign wealth funds, domestic mutual funds, insurers, as well as a rapidly expanding retail investor base. In addition, it has led to an increase in our weightage in multiple global indices, further improving the liquidity in our stock.

As we approach our 5th year anniversary, we are happy to report that till date we have delivered over ₹9,300 crores in distributions and total annualized returns of over 10% to the benefit of our 90k+ unitholders. As the management team of India’s first listed REIT, we have always focused on delivering long-term growth, while following the highest standards of corporate governance. We are determined to carry forward this benchmark as we continue on a strong and upwards growth trajectory.

With this, let me now hand over to Abhishek for our financial updates.

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Abhishek Agrawal

Chief Financial Officer (CFO)

Thank you, Aravind. Good evening everyone. Let me take you through the financial updates for the quarter.

- **Revenue from Operations** grew by 8% YoY to ₹936 crores. This was mainly driven by new lease-up at high re-leasing spreads, contracted rent escalations, and a ramp-up in our hotel business. This was partially offset by the impact of exits in our office portfolio.
- **Net Operating Income ('NOI')** grew by 8% YoY to ₹760 crores, in line with the increase in our Revenue. Our commercial office margins of 85% and hotel margins of 50% continue to be best-in-class.
- **Net Distributable Cash Flows ('NDCF')** stood at ₹494 crores, down 2% YoY. This was primarily due to an increase in our interest costs as well as working capital changes. Further, we have declared Q3 distributions of ₹493 crores or ₹5.2 per unit, making this our 19^{th} quarter of 100% distribution payout.

Moving to updates on our balance sheet

- During the last month, we successfully refinanced ₹2,600 crores of maturing debt at an average rate of 8.25%. The refinance was done through a combination of listed debentures, first-time commercial paper issuance and bank loans. Considering the current interest rate environment, we have tactically focused on raising funds from capital markets with an average maturity of less than 2 years in our recent refinance.
- With this, we do not have any further debt maturities till the latter half of this calendar year and only 20% of our debt book has rates locked in for over two years. With an expected turn in the rate cycle in the short to medium term, this places us well to optimize our funding costs.
- Our overall debt book now totals ₹16k crores implying a 30% leverage ratio and is well-balanced across diverse investor pools, debt instruments and tenures. We continue to maintain our dual AAA/Stable credit ratings and an industry-leading in-place debt cost, which stands at 7.8%, post the recent refinance.

Lastly, on the forward financial outlook

Based on our YTD performance, I am pleased to reconfirm the FY2024 guidance that we provided in July 2023. We continue to expect our NOI to be in the range of ₹2,924 to ₹3,136 crores and our distributions to be in the range of ₹20.5 to ₹22 per unit. Due to the additional exits noted during the year, we expect to finish the year marginally lower than the midpoint of our NOI range and at around the midpoint of our distribution guidance range.

As Aravind mentioned, we are focused on our organic growth by delivering and leasing our 6.9 msf developments on time, financing for which is already fully secured. We are also keen to expand our focus on inorganic growth as we believe that high-quality accretive acquisitions in the right micro-markets should provide a further impetus to our distribution growth trajectory in the long term.

Considering the positive impact of all these growth levers, we expect our NOI and distributions to grow further from this year's levels. We will provide detailed guidance for next year's numbers along with our Q4 results.

With this, let's now 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'll now begin the question-and-answer session. The first question is from the line of Akshay Malhotra from HSBC. Please go ahead.

Akshay Malhotra: Could you explain the contours of the pre-leasing that has happened this quarter, things like receipt of deposits, rent growth, when the fit-out starts, or will there be any modifications required to be done to the building catering to the new tenant?

Second, I would like to ask about Embassy GolfLinks. We've seen some reduction in distribution from Embassy GolfLinks in the last two quarters. It would be helpful if you could share some insights for the same.

And thirdly, the share of dividend within the total distribution seems to have seen a little reduction this quarter, could you explain that?

Aravind Maiya: In terms of pre-leasing, I'll give some guidance, but I don't want to get into more than what we can disclose under our confidentiality terms. Overall, if you see the deals that are in place for the three buildings - D1/D2 in Embassy Manyata which is due for delivery in February 26; then we have another deal in L4 which is 100% take up due for delivery in September 25; and the other one is additional space in our Parcel 8 in Embassy TechVillage to be completed this calendar year.

Other than D1/D2 that is going to be fully fitted-out, the other two are plain vanilla deals where we do the base-build and the fit outs are done by the respective tenants. In terms of rentals, all I can say is that we have obtained above average market rentals for all of these 3 deals. Specifically on the cash flows, we have not received security deposits on any of the deals, we will receive that in due course. In terms of rent-free period, considering that these are large deals, the rent-free period ranges from 8 to 10 months.

These are the big picture contours of these deals and there are of course some specific customizations which are given by each of these tenants, which we have factored into our timelines. You will see that for a couple of buildings, we have deferred delivery than what we had presented in the last quarter. That is basically to factor in some of the customizations which are given by each of these tenants. So, broadly these are the things which I want to highlight in relation to the pre-leases.

Abhishek Agrawal: On your second question which was related to GLSP's distribution reduction, we think that it's a temporary reduction, because of working capital changes. I think for Q4, we would have slightly higher than the run rate that we are clocking for 9 months.

On the third question on dividend percentage reduction, the distribution of dividend depends on the profitability of the SPV, which in turn depends on the depreciation and interest costs which are rising as of now – depreciation because of the deliveries that we have and interest cost because of the increase in interest rate and the refinance that has been done. Going forward, we think, that for Q4, we will be able to maintain the same run rate as Q3.

Akshay Malhotra: You have already thrown some light on the denotification of the SEZ area, could you give some more details and the timelines for denotification?

Aravind Maiya: So, are you talking about denotification or the new demarcation.

Akshay Malhotra: Denotification.

Aravind Maiya: We have a few buildings that are currently under denotification. Majority of those are in Bangalore, except one building in Pune for which we have just applied for denotification post the quarter-end, and one in Oxygen which is the building that is getting completed.

Broadly, I think, in Bangalore and Pune, we should be able to complete the exercise anywhere between 6 to 8 months. We are in advanced stages on the Bangalore one, Pune has, of course, just started. In Oxygen, there were some interdependencies on obtaining OC, which is now expected. I mean we should have got the OC in the month of January because the building is ready, but it got deferred due to some procedural issues at the relevant authority. So, the moment that gets done, we believe that it's another 3-to-4-month process. So, that's broadly the timelines on the buildings which are under denotification.

Moderator: Thank you. Next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Just a follow up on the previous question. So, rentals for the pre-leasing that you had done were above average market rentals, but just comparing your existing rentals in that asset, how has the performance been? Any signs of rental increase, considering both these offices are doing well exceptionally on the non-SEZ side? Are we seeing any signs of rental increase happening?

Aravind Maiya: In terms of rents, we've been seeing consistent increase in rentals in our Bangalore assets, all three of them - Embassy Manyata, Embassy TechVillage and Embassy GolfLinks. On average, we've been able to increase in-place rents by almost 25% in Embassy Manyata in the last 18 to 21 months. In Embassy TechVillage, there has not been too many expiries and subsequent renewals, so the rentals are holding fort versus in Embassy GolfLinks, where we have been able to increase the rentals by almost 15% in the last 18 to 21 months.

So, overall, all three assets have seen good rental increase and to your point the fact that we have been able to achieve substantial pre-leasing in these future towers, our ability to increase rental for the balance space should be much stronger.

Pritesh Sheth: Second question is on the distributions. While Embassy REIT had a good increase in revenue and NOI this quarter, because of higher interest expenses, we had a flattish distribution. Considering the next renewal of debt coming in the latter part of the calendar year, could we see an increase in distributions on quarter-on-quarter basis or is there any other line item which could offset the increase in NOI. Your comments on that?

Abhishek Agrawal: Pritesh, as we have mentioned, this is our last quarter of bottoming out of occupancy. Due to the leasing done in this current year, we have huge amount of non-cash NOI, which will convert into cash from the next year and as a result the NOI will start increasing from the next year. Considering the efficient flowthrough, we think that this should start making it into NDCF. The only thing as you said rightly is the interest rate. So, we'll have to wait and see what the interest rate trajectory is going to be, because interest rate is one item that can impact or be a drag from NOI or EBITDA to NDCF. So, interest and also the taxes on the increased NOI.

Aravind Maiya: And some sense from my side Pritesh. I don't want to be guessing on where the interest rate lands, but we will have some negative impact because of the refinance we've done post the quarter-end. As Abhishek mentioned, that was an average 8.25% versus the in-place was around 6.4%. So, that will have a negative impact. But overall, our sense is that rates have peaked out and it should start reducing in due course. Of course when that will happen is subject to debate. So, that's broadly my take on interest.

Pritesh Sheth: So, that's what I wanted to know in terms of refinancing - when it happened and how it's going to impact the NDCF for the next quarter. So, thanks for that.

And, lastly on the 1.1 msf of demarcation that you applied for, is it speculative in nature or is there some demand already that you are going ahead with this first phase of demarcation. And, how should one think about the balance 0.9 msf of SEZ space, because 1.4 msf you said is in Quadron and Oxygen in Pune and Noida respectively. So, what about the balance 0.9 msf in terms of timelines?

Aravind Maiya: If you look at the 1.1 msf for which we have applied for demarcation right now, a substantial portion of almost 0.6 msf is in Manyata. To be very frank, none of the 1.1 msf is backed-up by any existing tenant. In Manyata, we've gone aggressive and tried to demarcate almost all of the vacant SEZ spaces, except one recently completed tower. That has been our strategy in relation to Manyata.

And, in other cities, we have picked and chosen a few floors as a test case to start off with. Just to give you a sense why we've done that is, if you look at Embassy TechZone in Pune, in Hudson and Ganges, where we denotified the 900k sf new building. While the overall Pune market demand has been low, but in Hudson and Ganges, we've been able to reach almost 70% occupancy and there is good traction for non-SEZ space at Hudson and Ganges. So, based on that we have picked up a few floors.

In the other properties, our strategy will be to apply for demarcation more on a back-to-back basis because our sense from discussions with SEZ authorities and Ministry of Commerce is that the process for demarcation is expected to be much simpler and less time consuming. Hence, I think, we can do Phase 2 more on a back-to-back basis, that's broadly the way we are thinking.

Moderator: Thank you. Next question is from the line of Mohit Agrawal from Indian Infoline. Please go ahead.

Mohit Agrawal: Staying with the demarcation question. Do we know what kind of capex and what all needs to be paid back for demarcation now that we have applied for 1.1 msf and what is the kind of ROI we can expect it to generate? Is the incremental SD that we expect from new leasing sufficient to cover the capex? So, could you add some color on how is the ROI in the new set of rules?

Abhishek Agrawal: So, on the demarcation capex, the way we understand is that we will have to give away the GST that we save, which is basically 18% of the cost of construction, with some depreciation on the plant and machinery and the furniture and fixtures.

For the 1.1 msf that we are demarcating, we expect the cost to be in the range of ₹300 to 400 psf. Talking about ROI. For Bangalore assets, this cost is actually around 3 to 6 months of rentals which will be covered by the SD and for non-Bangalore Parks, in Noida and Pune, it should be around 9 to 10 months of rentals. So, it will either be covered by the SD, or some debt drawdowns.

Mohit Agrawal: Abhishek, does this include everything in terms of the common area charges and all that has to be paid and not just the GST, right?

Abhishek Agrawal: Yes.

Mohit Agrawal: Secondly, you have mentioned in your presentation on the pipeline demand of 1.5 msf. So, could you give some color on where this demand is coming from, is it largely global captives and for which assets is this demand for.

Second part to that question is that Aravind, you mentioned in your opening remarks that you're seeing some early signs of recovery in Pune and Noida. If you could give some more color to this because our understanding has been that even for non-SEZ spaces, the demand has been weak in Pune and Noida.

Aravind Maiya: In terms of the 1.5 msf pipeline, the demand is from the two main cities, Bangalore and Pune and a little bit in Noida. Most of this demand is for our existing spaces, not pre-leasing.

In relation to Pune and Noida. In Pune, we have all of our three assets in Hinjewadi. Embassy TechZone and Embassy Qubix assets are in Phase 1 of Hinjewadi and the demand for non-SEZ space in these two assets are reasonably okay versus Embassy Quadron, which is in Phase 2, where I would say the demand is not that great.

In relation to Noida, it's a similar story. At Embassy Galaxy, there were quite a few large exits in the early part of this year. Embassy Galaxy is in Sector 62, closer to Delhi, has a better market, is a fully non-SEZ building. As a result, we've been able to up the occupancy to around 84% this quarter and there is some decent pipeline for the balance as well. For Embassy Oxygen, which is further on the expressway in Sector 144, the demand continues to be subdued for both SEZ and non-SEZ space.

Mohit Agrawal: And just one follow up to my previous question. So, Aravind from what I understand, if suppose a whole vacant building is available, do you still have an option of applying under the old SEZ rules or with the new notification rules, the old rules of applying goes away? What I'm trying to understand is that if you have a fully vacant building, would we have to stick to the old rules or is it better to apply with new rules for denotification?

Aravind Maiya: Both are independent and both continue. The denotification is a denotification of the land itself so that becomes a non-SEZ land and you just move on as non-SEZ. Demarcation is just floor-by-floor demarcation, where the land is not denotified. So, there are two different concepts and both continue.

Moderator: Thank you. Next question is from the line of Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: So, my question is again regarding your Pune and Noida assets. We have seen some amount of pickup this quarter in occupancy, largely due to non-IT/ITES occupancy. So, based on your discussion with occupiers in this segment, do you see any movement, any green shoots there or do you think for CY2024 largely IT/ITES demand will continue to be slightly weak?

Aravind Maiya: I would call that our guesstimate but as of now, we think that IT/ITES will continue to be subdued or sluggish for this calendar year. While there has been a lot of growth in that sector prior to last 6-9 months in terms of headcount, they've only given up space in the last 3 years. But given where they are in terms of their overall business, we believe that it might be some time before they come back into the market. So, the demand is going to be from non-IT/ITES. Having said that, one-off project related deal comes our way in these respective cities. What I mean by that is, let's say an IT/ITES company which has won one big deal and has to mobilize resources physically, such companies are taking up some space, but that's far and few.

Moderator: Thank you. Next question is from the line of Vishal Parekh from Kotak Alternate Asset Managers. Please go ahead.

Vishal Parekh: On the timelines for the projects, I took the feedback on the shifting of timelines and costs. I think, for hotels also some timelines are to move, just want to check any specific thoughts around it.

Aravind Maiya: Vishal, to the best of my knowledge, we've not really moved the ETV hotel timeline. If there are any change in the timelines, we will come back in due course, but as of now we've stuck to the earlier timeline on the hotels, but it's still early days in terms of hotel construction.

Moderator: Thank you. The next question is from the line of Satinder Singh Bedi from Eon Infotech Investments. Please go ahead.

Satinder S Bedi: It seems that the great performance on leasing and also the increase in revenues have been held back by the increase in interest cost and the working capital changes. So, on the interest cost, what is the occupancy in M3 block A and the Oxygen Tower 1 because now this seems to be in a position where they are loading or will be loading the cost fully, but the occupancy is not known. So, what is the occupancy on these two please?

Aravind Maiya: On M3, the current occupancy is 45% and we have some lease pipeline for the balance. On Tower 1, as of now, it's nil occupancy and it is expected to be completed this quarter, that's Q4.

Satinder S Bedi: Next, we have this vacancy and the renewals coming up for Qubix in Q4 FY24 which is sizable about 347k sf and then in the next financial year TechZone which is again about 420k sf. So, Aravind on the leasibility or re-leasability of this?

Aravind Maiya: In Qubix, as I mentioned in my initial remarks, this is an additional exit which has come from a large IT services player during the quarter, and they've exited post the quarter. So, it's an exit which has happened post the quarter. In terms of the expiries for the next year, I would suggest we will give you better color along with our Q4 results and next year guidance as Satinder these are still moving pieces. I think we'll be in a better position to comment on FY25 expiries in the next 3 months.

Satinder S Bedi: Abhishek, on this working capital changes, if you could amplify as to what explains the non-variability of support. While part of it has been answered because the other expectation was that because of the strong leasing, the security deposits might have supported, but since they have not come in, so probably that explains a part of it. So, a good increase on the top line has not been supported by the subsequent line items. So, especially on working capital, there's a large move. So, if you could amplify that please?

Abhishek Agrawal: Satinder, what has actually happened is as you rightly said, the SDs have not come in, but instead we had to repay SDs for the expiries we had . So, this time there's a net hit of around ₹45 crores for this quarter. Also, the property tax for the half year was paid during this quarter as per the regulatory requirement. So, there is an impact of another ₹15-16 crores because of the property tax of half year being paid during Q3. So, these were the major movers.

Satinder S Bedi: For ETV Block 6, the quarterly timeline for completion has been shifted from December 25 to December 26. So, any reasons for the same Aravind?

Aravind Maiya: Satinder, I think we just delayed the project a bit due to certain approval related matters and we also had to do certain pre-site works of shifting some of the existing DG sets etcetera which took more time than what we anticipated, because of which there is a delay in the project and hence we shifted the timeline.

Moderator: Thank you. Next question is from the line of Abhinav Sinha from Jefferies India. Please go ahead.

Abhinav Sinha: So, firstly on the portfolio occupancy, you guys had guided for 85% for the portfolio and 88% on same-store for Q4. So, does it still stand?

Aravind Maiya: I think based on the current trends what we're seeing and the pipeline, we believe we should be able to meet that guidance.

Abhinav Sinha: And this will include the 0.7 msf building which is getting added to the portfolio?

Aravind Maiya: Yes, that's correct.

Abhinav Sinha: So, you are expecting another pretty strong quarter, I mean, close to 1.5 msf to 2 msf for leasing?

Aravind Maiya: I will refrain from giving a number, but I think we're still on track for that guidance.

Abhinav Sinha: You were alluding to the inorganic growth plans, so I just wanted to check if this is within the ROFO pipeline that we have or outside it, and within that how comfortable you will be on taking the gearing up for those acquisitions?

Ritwik B: ROFO is something that we have always had as an option and within that, front and center, there is Chennai. Just as a matter of form, we had sort of looked at it, but again, we reiterate that anything that we buy has to be funded given that we push out cash in the form of distributions and frankly the market just has not been there for us in this interest rate environment. And this is not just applicable to us. Globally as well if you just look at how REITs have been impacted. So, raising debt for us has tended to be more of a binary exercise. We wanted to make sure we got the refinance done. We wanted to make sure that there wasn't pressure on any covenants and I think the team has done a fabulous job on that.

But now in this environment, given that we are seeing a slight rerating, looking at the way the stock has being moving, a couple of the overhangs have obviously disappeared. The first one was leasing, that is coming back, driven by GCCs. The second is sponsor stake overhang that has obviously disappeared as well and that's reflected in the stock price. What we want to do is have more of a bigger plan to think about inorganic growth. Clearly the markets are improving from a leasing perspective, driven by the GCC demand.

And so if there is a way we can think about injecting a quality asset into the portfolio with the right mix of equity or debt, we'll do that. At this point in time, to lever up or take on more debt, I can't say what the optimum thing is, but most importantly, number one, the deal has to be accretive. Number two, it has to make strategic sense for us to do it. And number three, we have to just fund it in a way that doesn't pressure either the balance sheet or result in heavy dilution.

Over the last 5 years, we have been through so much volatility, and we have been through so many pressures. I think for the first time, we feel really good about the runway ahead of us. If you just look at all the macro and people talking about what's happening in India and the companies coming in, I mean, 78% of our leasing was to GCCs and the 1.5 msf pipeline is also majority GCC led. So, if that filters into the acquisitions, we'll certainly see how we can best do it.

Moderator: Thank you. Next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: The first one is on your pre-leasing success. So, the question there is pre-leasing basically is suggesting that some of these deals will go live a year and a half from now. What should be the reason for that? Is it that it just so happens that some of these clients are in their stage of India ramp-up and that's why they need capacity on these like 12 months down the line or is it a reflection of the fact that if the environment on leasing is starting to improve now by the time it translates to real demand it should be this much of a gap in any case. So, that's the first question.

And then, the second one is just a follow up on the acquisition plans. If good assets were to come along today, can they be NAV accretive at the current levels of interest or debt levels or would you have to wait for debt levels or cost of borrowing to go down and then you could consider them?

Aravind Maiya: In terms of pre-leasing, to be very frank, completely dependent on where the respective company is in terms of their current headcount and the projected ramp-up in their headcount. I think all the three are existing companies, existing global captives. Some of them are relatively new, some of them have been there for some time. They have grown significantly, and they also expect to grow significantly in the next one to two years. Honestly, they factor all of these while they enter into these deals. Probably Ritwik can answer your second one.

Ritwik B: On the second, it's a little more nuanced than that. If you were to fund an acquisition today, I think it really depends on number one, the size of the acquisition and number two, thinking through what the pricing expectations of the acquisition are.

At the current interest cost, fundamentally, the biggest issue for us is making sure that it doesn't break the bank, either from an earnings perspective or where the NAV actually comes in. Ideally, we would like to do an acquisition as close to NAV, just thinking about where we'd like to issue equity, or just make sure that the funding is done at numbers that aren't completely egregious to how we price the deal.

But, it's really a function of size and pricing expectations from any seller, which in this environment Kunal, we've looked at a lot of stuff over the last year, year and a half and even beyond, I think on the sell side, the expectations are still very, very tight. So, with that it becomes difficult for us to think about NAV accretive deals or DPU accretive deals, which we are obviously very, very focused on. Hence we've actually held off.

Kunal Tayal: Just one quick follow up on the first question. We are just trying to get a sense that would you expect any large deals to come along and move at a fast pace from here and close, let’s say, like in the next 6 months, 9 months or is the typical conversion tenure closer to like year and half in any case?

Aravind Maiya: Deals of this size can vary, sometimes they get done in 6 months and sometimes it takes longer. Really, it depends on where the respective company is in its business cycle. Let me give you a couple of examples. If it’s not just expansion, but also relocation, it could be a faster timeline to completion because they want to move fast. If it's a more growth option, generally it could take a little more time, because they would want to factor in much longer lead time in terms of the demand requirement. So, that could take a little more time.

If the question is would you have an instance where you could do another big deal in the next 6 months to 9 months, probably yes, but it really depends on what the requirement is.

Moderator: Thank you very much. Ladies and gentlemen we'll take that as the last question. On behalf of Embassy REIT, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.