

EMBASSY Office Parks-REIT

EMBASSY Office Parks REITs (Embassy REIT) is the owner of a high quality office portfolio that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. Embassy REIT's Portfolio comprises seven best-in-class office parks and four prime city-center office buildings totaling 32.7msf as of December 31, 2018, with strategic amenities, including two completed and two under-construction hotels totaling 1,096 keys, food courts, employee transportation and childcare facilities.

Marquee tenant base: Approximately 80.9% of the Gross Rentals from 160+ marquee tenant base is contracted with leading multinational corporations and ~43.4% is contracted with Fortune 500 companies such as JP Morgan, IBM and Microsoft. Embassy REIT's high quality tenant base along with long-term contracted rentals (with a WALE of 7 years) provides considerable stability to REIT Portfolio.

Best-in-class office properties with high quality infrastructure at attractive capital values: Embassy Office Parks hold 7 best-in-class office parks and 4 prime city-center office buildings totaling 32.7msf of Leasable Area, making them the largest REIT amongst comparable Asian office REITs. These properties are among the largest and highest quality assets in their submarkets. Group provides a complete business ecosystem with campus-style infrastructure, world-class facilities and amenities. In the last 3 years and 9 months, existing tenants have grown by 4.2msf within their assets.

Outlook & valuation:

Embassy REIT hold most of the assets in metro cities and key micro market, which are either Financial or IT hubs and the occupancy is with high quality tenant comprising of blue-chip multinational and Indian corporate. Most of the tenants are MNCs, which provides comfort to future cash flow.

Upside in cash flow will depend mostly from occupancy of vacant space, escalation of rental and growth in re-leased spread. As per offer document and offered NAV at INR 300 investor can expect 8-8.25% gross yield in FY20 and 8.6-8.96% gross yield in FY21. Moreover Investment in Real estate properties also gives opportunity of appreciation in value of assets around 4-7% in longer period of time. We expect a effective return of 12-13% is reasonable expectation from Embassy office Parks REITs. Hence, in our view, investors who want to invest in commercial property with expectation of 12-13% return over longer period of time can **SUBSCRIBE** for the issue.

Key Financial

| Y/E March (₹ Mn) | FY16 | FY17 | FY18 | 9MFY19 |
|------------------|--------|--------|--------|--------|
| Operating Income | 15,754 | 16,456 | 17,663 | 14,932 |
| % chg | - | 4 | 7 | - |
| Net Profit | 932 | 1,771 | 2,569 | 2,851 |
| % chg | - | 90 | 45 | - |
| EBITDA | 12,288 | 12,400 | 12,408 | 11,386 |
| EBITDA margin | 78% | 75% | 70% | 76% |
| P/BV (x) | 7.3 | 6.8 | 6.7 | 6.1 |
| Book Value | 41.1 | 44.0 | 45.1 | 48.8 |
| RoE (%) | 2.9 | 5.2 | 7.4 | 7.6 |
| RoCE (%) | 2.6 | 2.8 | 3.3 | 3.7 |

Source: RHP, Angel Research; Note: Valuation ratios based on post-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: March 18, 2019
 Issue Close: March 20, 2019

Issue Details

Face Value: ₹10
 No of Units offered: 129,124,400
 Issue size (amount): *₹3860 -**3873cr
 Price Band: ₹299-300
 Lot Size: 800 shares and in multiple thereafter 400

Post-issue implied mkt. cap: *₹23,073cr - **₹23,150cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 80%

*Calculated on lower price band

** Calculated on upper price band

Book Building

| | |
|-------------------------|--------------|
| Institutional investors | 75% of issue |
| Other Investors | 25% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-------|
| Promoters | 79.5% |
| Others | 20.5% |

Kripashankar Maurya

+022 39357600, Extn: 6004

kripashankar.maurya@angelbroking.com

About REITS

A first of kind of investment instruments in India which allow investors to invest in large real estate properties by investing a fraction of amount in rent generating assets by investing as low as Rs.2 Lakh (At time of issue of offer).

REITs allow anyone to invest in portfolios of real estate assets the same way they invest in other industries – through the purchase of individual company stock or through a mutual fund or exchange traded fund (ETF). The unit holders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy, manage or finance property which normally less liquid and large size in terms of capital value.

Therefore, like stocks, investors will be able to buy units of REITs from both primary and secondary markets. While investing in an IPO, the minimum investment amount will be Rs.2 lakh, while on exchange the minimum lot size will be Rs.1 lakh.

Key Highlights of REITS

- Owning the 'A' grade assets with smaller amount of investments ;
- Provide low entry level with minimum investment of Rs.2 lakh (In IPO) while on exchange minimum lot size will be Rs.1 Lakh;
- Diversified investment option at reduced risk, manage by professional management. Investment in assets like Office Space, Industrial Parks, warehouses, Hotels and Healthcare delivery (Hospital);
- Investor can earn two types of Income. One, Capital gains while selling the units and two through dividend/interest income.

About EMBASSY REITS

Embassy Office Parks REIT has a portfolio of 32.7 mn sq.ft spread across major cities such as Bengaluru, Mumbai, Pune and Noida which consist of 7 office parks and four city center office building . Group looking to raise upto INR 4,750 Cr from the issue (Including INR 876 Cr from Strategic Investor).

Key Highlights of Embassy Parks REIT

- 43% of gross rental comes from fortune 500 companies like Google, Microsoft, IBM, Cognizant, Goldman Sachs, JP Morgan, Well Fargo and Accenture, etc.;
- 49% of gross rental is derived from technology sector, which is India's fastest growing sector ;
- 95% of committed occupancy as of December 2018 and 80% plus retention rate over last three year and nine months;
- Embassy Office Parks' assets have stable cash flow with contracted escalations of 10-15% every three to five years with typical 9 to 15 years tenure;
- City center office building has escalation of 15% every three years for typical tenure of five to nine years;
- Office parks manage by highly experienced senior management team with an average experience of 20 years in operating, developing, leasing and managing commercial real estate;
- Each of the properties are located in prime location of respective cities, which gives strong revenue visibility and property value appreciation in longer term.

Distribution of income mechanism to Unit holders:

- REIT will receive its income in the form of Dividend, interest or lease from respective SPV;
- Post incurring expenses at Trust level, Manager has to distribute not less than 90% of net distributable cash flows to unit holders;
- Distribution can happen in the forms such as Dividend or Interest.

NAV Valuation mechanism

Investment manager has to declare the NAV of unit on quarterly basis as per prevailing market condition at that point of time. In this case, the underlying asset being that of Commercial 'A' grade assets, we expect 4-7% increase in value of assets over longer period of time.

Recommendation :

Embassy REIT hold most of the assets in metro cities and key micro market, which are either Financial or IT hubs and the occupancy is with high quality tenant comprising of blue-chip multinational and Indian corporate. Most of the tenants are MNCs, which provides comfort to future cash flow.

Upside in cash flow will depend mostly from occupancy of vacant space, escalation of rental and growth in re-leased spread. As per offer document and offered NAV at INR 300 investor can expect 8-8.25% gross yield in FY20 and 8.6-8.96% gross yield in FY21. Moreover Investment in Real estate properties also gives opportunity of appreciation in value of assets around 4-7% in longer period of time. We expect a effective return of 12-13% is reasonable expectation from Embassy office Parks REITs. Hence, in our view, investors who want to invest in commercial property with expectation of 12-13% return over longer period of time can **SUBSCRIBE** for the issue.

Issue Details

The company is raising ~₹4,750cr through offering a unit up to 15.28cr units in the price band of ₹299-300 per unit. The offer will constitute ~20.5% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band.

Exhibit 1: Pre and Post-IPO shareholding pattern

| | No of shares Cr. (Pre-issue) | | %No of shares Cr. (Post-issue) | | % |
|----------|------------------------------|------|--------------------------------|------|---|
| Promoter | 77.17 | 100% | 61.35 | 80% | |
| Other | 0 | 0% | 15.82 | 20% | |
| Total | 77.17 | 100% | 77.17 | 100% | |

Source: Offer Document , Angel Research

Objects of the offer

Exhibit 2:

| Object of the Issue | Amt. Rs cr |
|---|------------|
| Partial or full repayment or pre-payment of bank/ financial institution debt of the Asset SPVs and the Investment Entity | 3,710 |
| Payment of consideration for acquisition of the Embassy One Assets currently held by EODPL (Embassy One Developers Pvt. Ltd.) | 460 |
| General Corporate Purposes | 580 |

Source: Offer Document , Angel Research

Key Risks

Adverse Economic and Micro market condition

Growth in rental is subject to market conditions, which directly relates to growth in economy and the industry in which the tenant operates. Embassy REIT's majority tenants are from Information Technology sector and any slowdown or shift in tenants' projects may affect the occupancy and rental going forward.

Hospitality segment

Currently, few of the hotel assets are under-construction and do not generate any revenue. Going forward, lower occupancy may affect performance of overall REIT portfolio and in turn reduction in projected cash flow can be possible.

About Sponsor

Company's co-sponsors, Embassy Sponsor and Blackstone Sponsor, combine a deep knowledge of local markets with global expertise and best practices in investment and asset management. Embassy is a leading Indian real estate company, which has completed over 45msf of office and residential development. Blackstone Sponsor is one of the world's leading investment, real estate and alternative asset management firms.

About Investment Manager

Embassy Office Parks Management Services Private Limited is the Manager of the Embassy REIT. The manager has been involved in providing property management services to certain real estate assets promoted by the Embassy Sponsor, such as Embassy Techzone and Embassy Manyata for over four years.

Board of Directors of the Manager

Anuj Puri is an independent director of the Manager. He is currently a director of Jagran Prakashan Limited, Music Broadcast Limited, ANAROCK Investments Advisors Private Limited, Puri Crawford Insurance Surveyors and Loss Assessors India Private Limited, ANAROCK Property Consultants Private Limited, Amrta Consulting Private Limited and ANAROCK Group Business Services Private Limited.

Dr. Punita Kumar Sinha is an independent director of the Manager. She has been elected to serve on the board of governors of the CFA Institute, USA. She is the founder of Pacific Paradigm Advisors LLC, an independent investment advisory and management firm focused on Asia, and currently serves as an independent director on the board of several companies. She has been a Senior Managing Director at Blackstone.

Dr. Ranjan Pai is an independent director of the Manager. He has been the Managing Director and Chief Executive Officer of the Manipal Group of companies, and the Managing Director of MEMG Malaysia Sdn. Bhd. He is currently on the board of directors of several Manipal Group companies including Manipal Healthcare Private Limited, Manipal Health Systems Private Limited and Manipal Cure and Care Private Limited.

Vivek Mehra is an independent director of the Manager. He is currently on the board of directors of DLF Limited, HT Media Limited, Jubilant Life Sciences Limited, Grassroot Trading Network for Women, Clean Solar Power (Hiriyur) Private Limited and a non-executive director of RHT Health Trust Manager Pte. Ltd.

Aditya Virwani is a non-executive director of the Manager. He is on the board of several Embassy group companies.

Jitendra Virwani is a non-executive director of the Manager. He is the chairman and managing director of the Embassy Group of companies, including the Embassy Sponsor. He is also the founder of the Embassy Sponsor. He has over 25 years of experience in the real estate and property development sector.

The key personnel of the Manager

Michael Holland is Chief Executive Officer of the Manager since 2014. He has over 20 years of experience in the commercial real estate sector in Asia and Europe. Prior to joining the Embassy Group, he was the chief executive officer of Assetz Property Group. He founded the JLW India/ Jones Lang LaSalle India business and has served as its country manager and Managing Director from 1998 to 2002.

Rajesh Kaimal is Chief Financial Officer of the Manager. He has over 23 years of experience in the finance and budget sectors. He was previously associated with the Manipal group of companies from 2000 to 2017. He has also worked with Ruchi Soya Industries Limited, Blue Cross Laboratories Limited and Afcons Infrastructure Limited.

Anoop K. Jain is the Vice President – Finance and Accounts of the Manager. He has over 21 years of experience in various project administrative functions including preparation of capital expenditure reports for financial institutions, monitoring of project financial assets, coordinating statutory audit, general ledger, subcontractors accounts and taxes. He was appointed as the Compliance Officer of the Embassy REIT with effect from June 12, 2017.

Ramesh Periasamy is the Company Secretary and Compliance Officer of the Manager and the Compliance Officer of the Embassy REIT.

Income statement

| Y/E March (₹ Mn) | FY16 | FY17 | FY18 | 9M FY19 |
|--|--------|--------|--------|---------|
| Revenue from operations | 13,970 | 14,849 | 16,118 | 13,760 |
| Other income | 1,784 | 1,607 | 1,545 | 1,172 |
| Total Income | 15,754 | 16,456 | 17,663 | 14,932 |
| Expenses and losses | | | | |
| Cost of materials consumed | 42 | 49 | 55 | 42 |
| Employee benefits expense | 181 | 208 | 215 | 220 |
| Operating and maintenance expenses | 2,072 | 2,333 | 2,069 | 1,730 |
| Other expenses | 1,171 | 1,467 | 1,720 | 1,168 |
| Impairment loss on property, plant and equipment | - | - | 1,195 | 386 |
| Total Expenses | 3,466 | 4,057 | 5,254 | 3,546 |
| EBIDTA and Income tax excluding share of profit of equity accounted investees | 12,288 | 12,400 | 12,408 | 11,386 |
| Finance costs | 7,083 | 6,938 | 6,312 | 5,174 |
| Depreciation and amortization expense | 3,158 | 3,244 | 3,228 | 2,687 |
| Profit before share of profit of equity accounted investees and income tax | 2,046 | 2,218 | 2,868 | 3,525 |
| Share of profit of equity accounted investees (net of income tax) | 241 | 579 | 960 | 875 |
| Profit before income tax | 2,288 | 2,798 | 3,828 | 4,400 |
| Tax expense: | | | | |
| Current tax | 716 | 917 | 1,298 | 1,327 |
| Deferred tax charge | 1,163 | 716 | 745 | 320 |
| MAT credit entitlement | -523 | -606 | -784 | -98 |
| Income tax expense | 1,356 | 1,027 | 1,259 | 1,549 |
| Profit for the year | 932 | 1,771 | 2,569 | 2,851 |
| Items of Other comprehensive income | | | | |
| Items that will not be reclassified subsequently to profit or loss— Remeasurements of defined benefit liability, net of tax | 1 | 1 | 1 | 1 |
| Total comprehensive income for the year | 933 | 1,771 | 2,570 | 2,852 |

Source: Offer Document, Angel Research

Balance Sheet

| Y/E March (₹ Mn) | FY2016 | FY2017 | FY2018 | 9MFY19 |
|---------------------------------------|---------------|---------------|----------------|----------------|
| SOURCES OF FUNDS | | | | |
| Equity Share Capital | 3,871 | 4,279 | 4,482 | 3,608 |
| Reserves & Surplus | 27,838 | 29,673 | 30,299 | 34,066 |
| Instruments entirely equity in nature | 8 | 8 | 9 | - |
| Shareholders Funds | 31,717 | 33,960 | 34,789 | 37,674 |
| Total Loans | 54,775 | 64,381 | 81,894 | 82,841 |
| Other Liab & Prov | - | - | - | - |
| Total Liabilities | 86,492 | 98,341 | 116,683 | 120,515 |
| APPLICATION OF FUNDS | | | | |
| Net Block | 83,274 | 82,444 | 93,599 | 95,161 |
| Capital Work-in-Progress | 2,140 | 3,586 | 4,970 | 7,578 |
| Investments | 853 | 2,920 | 4,600 | 4,945 |
| Current Assets | 19,223 | 23,020 | 31,986 | 30,106 |
| Inventories | 2,384 | 2,926 | 9 | 5 |
| Sundry Debtors | 400 | 363 | 378 | 371 |
| Cash & Bank | 1,714 | 3,726 | 2,179 | 2,614 |
| Loans & Advances | 595 | 1,276 | 9,278 | 8,084 |
| Other Assets | 14,130 | 14,729 | 20,141 | 19,033 |
| Current liabilities | 18,998 | 13,628 | 18,472 | 17,276 |
| Net Current Assets | 225 | 9,392 | 13,514 | 12,831 |
| Total Assets | 86,492 | 98,341 | 116,683 | 120,515 |

Source: Offer Document, Angel Research

Cash Flow

| Y/E March (₹ cr) | FY16 | FY17 | FY18 | 9MFY19 |
|---|--------------|--------------|---------------|--------------|
| Net cash generated from operating activities | 9,252 | 9,867 | 12,508 | 11,345 |
| Net cash (used in) investing activities | 2,335 | -9,508 | 25,364 | -4,843 |
| Net cash generated from/(used in) financing activities | 6,571 | 914 | 11,629 | -5,586 |
| Net (decrease)/increase in cash and cash equivalents | 346 | 1,273 | -1,227 | 916 |
| Cash and cash equivalents at the beginning of the year | 815 | 1,391 | 2,664 | 1,437 |
| Cash and cash equivalents at the end of the year | 1,391 | 2,664 | 1,437 | 2,353 |

Source: Offer Document, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com
DISCLAIMER:

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

| Disclosure of Interest Statement | Embassy REIT |
|---|---------------------|
| 1. Financial interest of research analyst or Angel or his Associate or his relative | No |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No |
| 3. Served as an officer, director or employee of the company covered under Research | No |
| 4. Broking relationship with company covered under Research | No |