AXIS SECURITIES

Results Update
2nd May 2024

Embassy Office Parks REIT
Real Estate

BUY
Target Price
400

Encouraging Guidance For the Next Year

Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA Margin – **INLINE**; PAT – **INLINE**

Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: -8.0%/-6.7%; EBITDA Absol: -11.6%/-11.0%; PAT: -13.2%/-13.0%

Recommendation Rationale

- The company's **commercial office business grew by 8.6% YoY to Rs 650 Cr,** and the hotel business grew to Rs 120 Cr from Rs 102 Cr YoY.
- The company has offered **a total dividend of Rs 490 Cr (payout ratio of 100%),** which resulted in a distribution of Rs 5.20/unit.
- **Hotel revenue also increased due to an improvement in average occupancy to 64% YoY** (vs. 52%) and average daily rates to Rs 11,242 YoY (vs. Rs 11,935).

Sector Outlook: Positive

Company Outlook & Guidance: Guidance for FY25E: NOI of Rs 3,210-3,350 Cr (+10% YoY at midpoint), NDCF of Rs 2,120-2,190 Cr (+7% YoY at mid-point), DPU of Rs 22.4-23.1/unit. The lower NDCF growth in comparison with the NOI growth is due to the higher interest costs and some non-cash NOI (due to fresh leasing).

Current Valuation: PE 25x FY25 earnings (Earlier Valuation: PE 25x)

Current TP: Rs 400/share (Earlier TP: Rs 400/share)

Recommendation: BUY

Financial Performance

EMBASSY reported revenue of Rs 946 Cr, up 9.0% YoY, which was above our estimates. The company's commercial office business grew by 8.6% YoY to Rs 650 Cr, and the hotel business grew to Rs 120 Cr from Rs 102 Cr in the previous year. Its NOI increased by 12.6% YoY, whereas the EBITDA margins stood almost flat at 75.2% (+367bps YoY). The company's absolute EBITDA stood at Rs 712 Cr, up 14.6% YoY. The company's Adj. PAT grew by 46% YoY, led by low depreciation and an increase in operating profit. It has offered a total dividend of Rs 490 Cr (payout ratio of 100%), which resulted in a distribution of Rs 5.20/unit.

Embassy concluded gross leasing agreements for 1.53 Mn sq. ft in Q4FY24, comprising 1.29 Mn sqft of fresh leasing (including 1 Mn sq. ft releasing at 23% re-leasing spread), and 0.24 Mn sq. ft of renewals at 16% renewal spread. Embassy had overall gross leasing of 8.1 Mn sq. ft in FY24 (pre-commitments of 2.8 Mn sq. ft, renewals of 1.3 Mn sq. ft and new lease-up of 3.9 Mn sq. ft), against guidance of 6 Mn sq. ft.

Moreover, average rents have increased to Rs 85 psf from Rs 80 psf on a YoY basis which would improve the company's profitability moving forward. Hotel revenue also increased due to an improvement in average occupancy to 64% YoY (vs. 52%) and average daily rates to Rs 11,242 YoY (vs. Rs 11,935).

Outlook: **FY25E guidance:** The company has given FY25E guidance as follows: NOI of Rs 3,210-3,350 Cr (+10% YoY at midpoint), NDCF of Rs 2,120-2,190 Cr (+7% YoY at mid-point), DPU of Rs 22.4-23.1/unit. The lower NDCF growth in comparison with the NOI growth is due to the higher interest costs and some non-cash NOI (due to fresh leasing). The guidance assumes gross leasing of 5.4 Mn sq. ft, including 3.8 Mn sq. ft of new leases, 1 Mn sq. ft of pre-commitments and 0.6 Mn sq. ft of renewals. The management has also guided for 13% contractual escalations on a 7.7 Mn sq. ft area, a 10% YoY increase in hotel NOI, and a 15-18% YoY increase in interest costs.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	946	1.0	9.0	900	5.1
EBITDA	712	0.5	14.6	685	3.9
EBITDA Margin	75.2%	-41	367	76.1%	
Net Profit	223	23.2	46.0	220	1.4
EPS (Rs)	2.4	23.2	46.0	2.3	1.4

Source: Company, Axis Research

(CMP as of 30 Apr 2024)

CMP (Rs)	360
Upside /Downside (%)	11%
High/Low (Rs)	399/281
Market cap (Cr)	34,160
Avg. daily vol. (6m)Shrs.	60,000
No. of shares (Cr)	94.8

Shareholding (%)

	Sep-23	Dec-23	Mar-23
Promoter	29.7	29.7	29.7
FIIs	23.51	21.42	21.42
MFs / UTI	15.34	17.66	17.66
Banks / FIs	2.93	3.13	3.13
Others	28.51	28.09	28.09

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	3,685	4,258	4,747
EBITDA	2,769	3,198	3,541
Net Profit	964	1,150	1,400
EPS (Rs)	10.2	12.1	14.8
PER (x)	35.4	29.7	24.4
P/BV (x)	18.1	15.6	14.0
EV/EBITDA (x)	1.5	1.5	1.6
ROE (%)	4.1%	5.1%	6.4%

Change in Estimates (%)

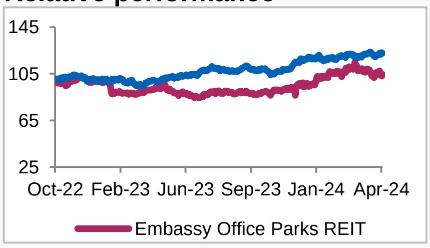
Y/E Mar	FY25E	FY26E
Sales	(8.0)	(6.7)
EBITDA	(11.6)	(11.0)
PAT	(13.2)	(13.0)

ESG disclosure Score**

Environmental Disclosure	51.0
Social Disclosure Score	26.4
Governance Disclosure Score	78.6
Total ESG Disclosure Score	52.0
Sector Average	40.5

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Risks to our Estimates and TP

- The economic slowdown may impact the company's profitability.
- Low rental yield with a fall in the occupancies
- An increase in debt levels may impact the company’s profitability

Change in Estimates

	New		Old		% Change	
Rs. Cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	4,258	4,747	4,626	5,089	(8.0)	(6.7)
EBITDA	3,198	3,541	3,618	3,980	(11.6)	(11.0)
PAT	1,150	1,400	1,325	1,610	(13.2)	(13.0)

Source: Company, Axis Securities

Q4FY24 Results Review: EMBASSY REITS

Rs Cr	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Revenues	868	914	889	936	946	9.0	1.0
Growth (%)	15.9%	10.2%	3.8%	8.2%	9.0%		
Direct expenses	187	176	170	177	180		
NOI	680	738	719	760	766	12.6	0.8
NOI margins	78.4%	80.7%	80.8%	81.2%	80.9%	255	-20
Indirect expenses	59	58	49	51	54		
EBITDA	621	680	670	709	712	14.6	0.5
EBITDAM (%)	71.6%	74.4%	75.3%	75.7%	75.2%	367	-41
Other income	33	54	50	53	46		
Depreciation	347	229	236	252	252	-27.3	0.0
Finance costs	254	256	262	278	292	15.2	5.3
Impairment loss	0	0	0	0	-84		
PBT before Ass.	53	249	222	232	298	458.2	28.5
Profit from associates	24	18	19	21	31		
Profit before tax	77	268	240	253	328	325.8	29.9
Tax	42	34	24	23	45		
Tax (%)	54.1%	12.6%	9.9%	9.0%	13.7%		
Net profit	35	234	217	230	283	700.6	23.2
PAT margins	4.1%	25.6%	24.4%	24.6%	30.0%	2,588	540

Source: Company, Axis Securities

Revenue Breakup

Particulars (Rs Cr)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Real estate (Rental)	598	621	609	649	650	8.6	0.2
Real estate (Other)	117	145	148	137	132	13.5	-3.3
Hotel (Room revenue)	62	61	59	64	72	16.3	11.8
Hotel (F&B)	40	40	41	50	48	19.1	-4.8
Solar	51	46	32	37	44	-13.0	20.5

Source: Company, Axis Securities

Key highlights

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Distribution (Rs Cr)	530	510	524	494	490
Distribution per unit (Rs DPU)	5.59	5.38	5.53	5.20	5.20
Completed Area (msf)	34.3	34.3	35.3	35.8	36.5
Occupancy %	86.0	85.0	83.0	84.0	85.0
Average rents (Rs psf pm)	80.0	82.0	85.0	85.0	85.0
New Lease	0.71	1.06	1.99	3.49	1.53

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Sales	**3,420**	**3,685**	**4,258**	**4,747**
Growth (%)	**15.4%**	**7.8%**	**15.5%**	**11.5%**
Total Expenditure	875	916	1,060	1,206
Employee Expenses	59	58	60	66
% of sales	1.7%	1.6%	1.4%	1.4%
Other Expenses	816	858	1,001	1,139
% of sales	23.9%	23.3%	23.5%	24.0%
EBIDTA	**2,544**	**2,769**	**3,198**	**3,541**
EBITDAM (%)	**74.4%**	**75.1%**	**75.1%**	**74.6%**
Interest	976	1,087	1,117	1,149
EBIT	**1,568**	**1,682**	**2,080**	**2,392**
EBITM (%)	**45.9%**	**45.6%**	**48.9%**	**50.4%**
Depreciation	1,128	885	861	841
Other Income	144	203	200	200
Share of P/L	78	89	94	91
Exceptional items, net	0	0	0	0
PBT	**662**	**1,089**	**1,513**	**1,842**
Tax Rate (%)	23.5%	11.5%	24.0%	24.0%
Tax	156	125	363	442
Reported PAT	**506**	**964**	**1,150**	**1,400**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Share Capital	28,826	28,826	28,826	28,826
Reserves & Surplus	-4,458	-5,552	-6,427	-7,051
Shareholders Fund	**24,368**	**23,274**	**22,399**	**21,775**
- Long Term Borrowings	14,842	13,222	13,722	14,222
- Deferred Tax	5,183	5,176	5,176	5,176
- Other Long Term Liabilities	476	458	525	585
- Other Current Liabilities	1,542	1,464	1,691	1,886
TOTAL EQUITY & LIABILITIES	**46,411**	**47,376**	**47,303**	**47,439**
Net Block	2,923	2,923	2,923	2,923
CWIP	60	151	151	151
Investment property	27,952	29,642	28,642	27,642
Investment property	121	1,652	1,652	1,652
Goodwill	6,405	6,405	6,405	6,405
Other intangible assets	1,186	975	975	975
Equity accounted investee	2,308	2,291	2,291	2,291
- Fixed Assets	40,955	44,039	43,039	42,039
- Other Non Current Assets	4,311	2,008	2,333	2,601
- Inventories	4	5	6	7
- Trade Receivables	50	35	35	39
- Cash & Cash Equivalents	875	1,027	1,631	2,465
- Other Current Assets	216	258	255	285
TOTAL ASSETS	**46,411**	**47,376**	**47,303**	**47,439**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
PBT	662	1,089	1,513	1,842
Add: Depreciation	1,128	885	861	841
Add: Interest	976	1,087	1,117	1,149
Cash flow from operations	2,766	3,062	3,492	3,832
Change in working capital	1,619	-2,222	21	42
Taxes	156	125	363	442
Miscellaneous expenses	0	0	0	0
Net cash from operations	992	5,158	3,107	3,348
Capital expenditure	-505	-3,970	139	159
Change in Investments	0	-3	0	0
Net cash from investing	-505	-3,973	139	159
Increase/Decrease in debt	2,768	2,117	500	500
Dividends	-2,025	-2,059	-2,025	-2,025
Proceedings from equity	0	0	0	0
Interest	-976	-1,087	-1,117	-1,149
Others	7	-6	0	-0
Net cash from financing	-226	-1,034	-2,642	-2,674
Net Inc./(Dec.) in Cash	261	151	604	834
Opening cash balance	615	875	1,027	1,631
Closing cash balance	875	1,027	1,631	2,465

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth	**25.5**	**15.4**	**7.8**	**15.5**
OPM	**77.6**	**74.4**	**75.1**	**75.1**
Oper. profit growth	24.2	10.7	8.8	15.5
COGS / Net sales	0.0	0.0	0.0	0.0
Overheads/Net sales	-	-	-	-
Depreciation / G. block	1.9	2.8	2.0	2.0
Effective interest rate	0.9	23.5	11.5	24.0
Net wkg.cap / Net sales	-	-	-	-
Net sales / Gr block (x)	0.1	0.1	0.1	0.1
RoCE	**3.3**	**3.4**	**3.6**	**4.6**
Debt/equity (x)	0.5	0.6	0.7	0.8
Effective tax rate	0.9	23.5	11.5	24.0
RoE	**3.4**	**2.1**	**4.1**	**5.1**
Payout ratio (Div/NP)	232.2	400.1	213.6	176.0
EPS (Rs.)	**10.8**	**5.3**	**10.2**	**12.1**
EPS Growth	27.2	(43.0)	90.5	19.3
CEPS (Rs.)	17.5	20.9	18.5	17.0
DPS (Rs.)	25.2	21.4	21.7	21.4

Source: Company, Axis Securities

Embassy Office Parks REIT Price Chart and Recommendation History

Date	Reco	TP	Research
07-Feb-22	BUY	420	Result Update
02-May-22	BUY	410	Result Update
22-Jul-22	BUY	425	Result Update
27-Oct-22	BUY	400	Result Update
30-Jan-23	BUY	386	Result Update
02-May-23	BUY	367	Result Update
02-Aug-23	BUY	350	Result Update
31-Oct-23	BUY	332	Result Update
08-Feb-24	BUY	400	Result Update
02-May-24	BUY	400	Result Update

Source: Axis Securities

About the analyst

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Sector: Midcaps/ Pharma Sector

Analyst Bio: Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector

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