Management Discussion and Analysis

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The discussion and analysis of our financial condition and results of operations that follow are based on our Audited Consolidated Financial Statements of Embassy REIT and the REIT assets (together known as "Group") for the year ended March 31, 2020 prepared in accordance with Indian Accounting Standards and applicable REIT regulations, whereas the comparative numbers for the year ended March 31, 2019 are based on Audited Combined Financial Statements prepared in accordance with Ind AS standard and applicable REIT regulations. Embassy REIT was listed on April 1, 2019 and the Embassy REIT assets were acquired between March 22, 2019 to March 25, 2019. Accordingly, the comparative financial year financial information has been prepared by comparing audited combined financial statements for the financial year ended March 31, 2019 (assuming that the Embassy REIT held the REIT assets in its present form as of April 1, 2018). The financial information for year ended March included herein is being presented to provide a general overview of the Embassy REIT's performance for financial year ended March 31, 2020 as compared, in the manner so determined , against the financial year ended March 31, 2019 on the basis of certain key financial metrics for general information purposes only and does not purport to present a comprehensive representation of the financial performance of the Embassy REIT for these periods. The Embassy REIT, the Trustee and the Manager make no representation, express or implied, as to the suitability or appropriateness of this comparative information to any investor or to any other person.

Some of the information contained in the following discussion(s), including information with respect to our plans and strategies, may contain forward-looking statements based on the currently held beliefs, opinions and assumptions. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, financial condition, performance, or achievements of the Embassy REIT or industry results, to differ materially from the results, financial condition, performance or

achievements expressed or implied by such forward-looking statements. Given these risks, uncertainties, and other factors, including the impact of COVID-19 on us, our occupiers and the Indian and global economies, users are cautioned not to place undue reliance on these forward-looking statements. The Manager is not obligated to update these forward-looking statements to reflect future events or developments or the impact of events which cannot currently be ascertained, such as COVID-19. In addition to statements which are forward looking by reason of context, the words 'may', 'will', 'should', 'expects', 'plans', 'intends', 'anticipates', 'believes', 'estimates', 'predicts', 'potential' or 'continue' and similar expressions identify forward-looking statements. Please refer the disclaimer section at the end of the Annual Report for a discussion of the risks and uncertainties related to those statements. You should read this discussion in conjunction with our Consolidated Financial Statements that we include in this Annual Report and the accompanying notes to accounts.

Executive overview

Embassy REIT is India's first publicly listed REIT. We listed on the Indian stock exchanges on April 1, 2019.

Embassy REIT comprises 26.2 msf of completed and operational commercial properties across India. With approximately 7.1 msf of on-campus development in the pipeline, the total portfolio spans 33.3 msf across seven Grade A office parks and four city-centre office buildings in India's best performing office markets of Bengaluru, Mumbai, Pune and the National Capital Region (NCR).

The portfolio is home to over 160 blue chip corporate occupiers, and comprises 78 buildings with strategic amenities, including two completed hotels, two under-construction hotels, and a 100MW (AC) solar park that supplies renewable energy to park occupiers.

Our competitive strengths include:

- We own best-in-class office properties that are complemented by high quality infrastructure
- Our office spaces are occupied by a diversified, high quality, multinational occupier base
- We run a simple business with embedded growth levers
- Our assets are strategically located in the top-performing markets with high barriers to entry
- We have a highly experienced management team
- We are backed by renowned sponsors who bring global expertise and local knowledge to our operations.

We aim to maximise total returns for Unitholders by targeting growth in distributions and in Net Asset Value (NAV) per unit. To achieve this objective, we execute business and growth strategies that capitalise on our portfolio's embedded organic growth levers, deliver new on-campus development, undertake value accretive acquisitions, prudently manage our capital and balance sheet and pay distributions to Unitholders.

92.8%

Occupancy across the portfolio as of March 31, 2020

Current business environment

The outbreak of COVID-19 and its rapid spread across the globe has disrupted economies worldwide, in addition to extracting a heavy toll on human lives and global healthcare systems.

In India, COVID-19 started to emerge as a potentially significant business disruptor in late February. We entered this crisis in a position of great strength, the result of several years of prudent and proactive management of the business. Our strong balance sheet, ample liquidity, the long-term lease contracts with our 160+ corporate office occupiers, the strong relationships and trust we have built with them over the years and our first class on-ground operations teams across the country all contribute to the resilience of our platform, and surely that resilience will be required over the coming year.

Since the outbreak and subsequent lockdown by the government, our focus has been to facilitate business continuity for our occupiers operating critical services from our parks and ensuring the health, safety, and well-being of all our stakeholders. Our parks remained open for business to support core business functions of our occupiers throughout the national lockdown within the parameters laid out by the Central Government and the multiple States in which we operate.

Real Estate is not immune to the COVID-19 impact. We are in early stages of this global business disruption and there is a great deal of uncertainty, many views and speculative comments about the potential impact of issues such as social distancing, work from home, workplace de-densification, business travel reductions, liquidity squeeze, and so on. In addition, we are still operating in a restricted environment today, and it is difficult to estimate with a reasonable level of certainty as to how long the current challenges will persist. However, amid this uncertainty, we have a positive view on a number of areas:

Firstly, it is clear that a significant reduction in the densities of the workplace is coming, given increased priority to employee wellness, and this will drive demand. Some of this de-densification, but certainly not all, will be offset by more flexible work styles including work from home. The work from home experiment in India has delivered in this crisis but our recent interactions with many corporate occupiers leads us to a preliminary assessment that while the industry may see more flexibility in employee work styles, the total business environment which Embassy REIT provides to its occupiers and their employees cannot, in India, be fully replaced by solitary work from home changes.

Our assessment is that workspaces will, more than ever, be the venue for building Company culture, collaboration, training, and teamwork. The workplace for the young Indian workforce provides a social, professional and community space as well as the necessary infrastructure and productive environment which is so often lacking at home. We are not alone in our view that we will see demand shifting to higher quality, lower density workspaces in the coming years. This aligns well with our overall product offering and strategy – the total business ecosystem.

Secondly, it is clear that a sector which is shining in the COVID-19 world is technology – as a facilitator of new lifestyles – and, as we have highlighted in the past, our existing portfolio continues to be around 50% technology occupier focused. We have a positive bias to India's leading tech city, Bengaluru, further enhancing the resilience of our business in times such as today. We underline our previously articulated message – we have a bias to the right sector, the right product, and the right markets in India.

A third point of certainty is that our business is focused on delivering best-in-class office premises and amenities to the best corporations globally and in India, that we entered this phase with record office demand and low vacancies, and we foresee a dramatic tightening of new supply. Our core customer base operates here in India because this remains the global hub for technology talent. This, and the fact that India continues to have a significant employee cost advantage and affordable rentals, has not changed. In fact, again, technology has become even more important to the functioning of the global economy and consequently, many technology companies are prospering in this environment.

Over the coming months, as we start to emerge from this pandemic, we will see how these things play out. Over the medium-term though, we do believe that this phase will result in continued consolidation in the Indian office market, considerable reduction in annual supply and a higher market share for high-quality institutional landlords in India such as Embassy REIT.

Factors affecting our financial condition and results of operations

Our financial performance and results of operations are affected by several factors as follows:

- **Commercial Real Estate Market -** We depend on the performance of the commercial real estate market in the cities where our office parks and commercial offices are located. The commercial real estate market in these cities, in turn, depends upon various factors such as economic and other market conditions demographic trends, employment levels, availability of financing, prevailing interest rates, competition, bargaining power of occupiers, operating costs, government regulations and policies, and market sentiment. Our office parks and office buildings are located in the key markets of Bengaluru, Mumbai, Pune and Noida. These markets have historically exhibited strong market dynamics with robust absorption and low new office supply resulting in high rent growth and low vacancy on average.

  Within these cities, our business significantly depends on the performance of the submarkets where the Portfolio assets are located. The Portfolio assets are strategically located within their respective markets, which has allowed us to attract, retain and grow key occupiers within our office parks and commercial office buildings.

- **Industry sector of occupiers -** Our business also depends on the performance of the industry sectors of our occupiers. Sectors such as technology, banking, financial services, and insurance, engineering, and manufacturing drive commercial leasing activity in India. Additionally, new sectors such as research and analytics, consulting, e-commerce and mobile application-based service providers have also emerged as key drivers of office real estate demand, as companies in these sectors have been increasingly expanding or setting-up operations in India.

  The technology sector contributes a majority of our revenues and accounts for 50% of our Gross Rentals as of March 31, 2020. Further, for some of our assets in the Portfolio, the terms of the governmental permissions require us to lease either all or a significant portion of the property to occupiers from the technology sector. As a result of our significant portfolio of occupiers in the technology sector, the business conditions for our occupiers in this sector have had and are likely to continue to have a material impact on our results of operations.

  Further, 78% of our Gross Rentals as of March 31, 2020 are contracted with leading multinational corporations. Accordingly, global factors impacting their business may impact their ability to service their lease agreements or expand the office space that they have leased in the Portfolio assets.

- **Occupancy rates -** The success of our business depends on our ability to maintain high occupancy at the Portfolio. Our Same Store Occupancy across the Portfolio as of March 31, 2020 was 94.5% considering March 2019 as the base year and our occupancy was 92.8% including the new completions during FY2020. Occupancy rates largely depend on the attractiveness of the markets and submarkets in which the Portfolio assets are located, rents relative to competing properties, the supply of and demand for comparable properties, the facilities and amenities offered, the ability to minimise the intervals between lease expiries (or terminations) and our ability to enter into new leases (including

pre-leases for under-construction properties or properties where leases are expiring).

We believe that our strategically located assets in attractive submarkets allow us to maintain high levels of occupancy. Further, we believe that replicating such a platform is difficult given land acquisition complexities and long development timelines in India. We believe that we enjoy greater credibility with our occupiers as a result of our reputation, scale of operations and the amenities and infrastructure that we provide, which generally allows our assets to be viewed as premium properties, thereby enhancing the portfolio's appeal to occupiers, which has resulted in high occupancy rates.

- **Lease expiries -** We typically enter into long-term leases with our occupiers, which provides us with a steady source of rental income. The tenure of leases for our office parks are typically 9-15 years (assuming successive renewals at our occupiers' option), with a three to five-year initial commitment period, and contractual escalations of 10%-15% every three years. For our city center office buildings, the lease tenure is typically five to nine years with a three to five-year initial commitment period and contractual escalations of 15% every three years.

  We endeavour to foster and maintain strong relationships with our occupiers. We regularly communicate with the corporate real estate heads of our occupiers through a dedicated customer relationship management programme which ensures we anticipate and cater to occupier needs. Further, at some of our Portfolio assets, we have implemented various energy efficiency and sustainability initiatives, which helps to attract occupiers. However, in cases where occupiers do not renew leases or terminate leases earlier than expected, it generally takes some time to find new occupiers which can lead to periods where we have vacant areas within the Portfolio assets that do not generate facility rentals.

- **Rental rates -** Our rental income primarily comprises facility rentals and income from maintenance services that we provide to our occupiers at some of the Portfolio assets (Express Towers, Embassy 247, Embassy Oxygen, Embassy Galaxy, Embassy One, Embassy Quadron, FIFC and Embassy Qubix). Accordingly, our revenue from operations is directly affected by the lease rental rates of the Portfolio assets which are, in turn, affected by various factors like prevailing economic, income and demographic conditions in the submarket, prevailing rental levels in the submarket, amenities and facilities provided, property maintenance, government policies and competition.

- **Escalations -** Our existing lease agreements typically have built-in rent escalations, which have led to growth in our revenues in prior years and we expect it will help us generate stable and predictable growth in our revenue from operations. Our leases typically have contractual escalations in the range of 10% to 15% every three to five years. Further, due to the tenure of our existing leases and growth in the market rents of our Portfolio, our average in-place rents are significantly below current market rents. We believe that this presents us with a rental growth opportunity by releasing the same space at higher rentals, given the demand for office real estate in respective submarkets coupled with our low vacancy levels. This allows us to be well-positioned to capitalise on our Grade A office portfolio by realising the embedded rental growth within our office parks.

- **Development timeline and costs -** As of March 31, 2020, we had 2.6 msf of Under Construction Area and 4.5 msf of Proposed Development Area. The timely development of our pipeline is expected to positively impact our financial performance. We typically commence construction based on our pre-leasing arrangements and an assessment of upcoming supply and recent absorption trends as well as various other micro and macro factors impacting the demand for our assets. We also construct office space on a 'built-to-suit' basis, taking into account the specific requirements of our occupiers. This enhances our ability to develop and maintain long-term relationships with our occupiers. A development's timeline will vary depending on factors such as size, complexity, and occupier specifications.

  Construction progress depends on various factors, including business plans, the availability of financing, labour and raw materials, the receipt of regulatory clearances, access to utilities such as electricity and water, the operating and financial condition of the construction companies we use in our business, and other contingencies such as adverse weather conditions.

  We capitalise our construction and borrowing costs in relation to our under-construction properties and capitalise brokerage costs in respect of our investment properties. These costs are depreciated based on the straight-line method over their estimated useful lives. When construction is completed, borrowing costs are charged to our statement of profit and loss as finance costs, causing an increase in expenses.

- **Cost of financing -** Our finance costs primarily comprise interest expense on our non-convertible debentures and borrowings from banks and financial institutions. Our ability to obtain financing, as well as the cost of such financing, affects our business. Though we believe we are able to obtain funding at competitive interest rates, the cost of financing is material for us, as we require significant capital to develop our projects.

- **Government regulations and policies including taxes and duties -** The real estate sector in India is highly regulated and there are a number of laws and regulations that apply to our business. Regulations applicable to our business include those related to land acquisition, funding sources, the ratio of built-up area to land area, land usage, the suitability of building sites, road access, necessary community facilities, open spaces, water supply, sewage disposal systems, electricity supply, environmental suitability and size of the project. We strive to continuously maintain compliance with these regulations and incur various costs in the process, including fees to government authorities, fees to lawyers and consultants, property tax, other rates, and taxes. In addition, some of our Portfolio assets are located on land notified as part of SEZs and may benefit from tax holidays attributable to SEZs.

- **Competition -** We operate in competitive markets for the acquisition, ownership, and leasing of commercial real estate. We compete for occupiers with numerous real estate owners and operators who own properties similar to our own in these markets. Among the factors influencing leasing competition are location, rental rates, building quality and levels of services provided to occupiers.

  Competition from other developers in India may adversely affect our ability to sell or lease our projects, and continued development by other market participants could result in saturation of the real estate market which could adversely impact our revenues from commercial operations. Increasing competition could result in price and supply volatility, which could materially and adversely affect our results of operations and cause our business to suffer.

- **Future acquisitions -** We intend to selectively acquire from the Embassy Sponsor or third parties commercial real estate assets that meet our investment criteria. Each new acquisition that we complete may materially affect our overall results of operations and financial position. In addition, our acquisition strategy may require a significant amount of working capital and long-term funding. Our ability to acquire

properties will depend on our ability to secure financing comprising both debt and equity on commercially viable terms, which will in part be affected by the prevailing interest rates and the REIT's unit price at the time of acquisition.

- **Operating and maintenance expenses -** Our operating and maintenance expenses primarily consist of repair and maintenance (of buildings, common areas, machinery, and others), power and fuel expenses, property management fees and expenses related to housekeeping and security services. Factors which impact our ability to control these operating expenses include (but are not limited to) asset occupancy levels, fuel prices, general cost inflation, periodic renovation, refurbishment, and other costs related to re-leasing.

  For some of the Portfolio assets (Express Towers, Embassy 247, Embassy Oxygen, Embassy Galaxy, Embassy One, Embassy Quadron, FIFC, and Embassy Qubix), we provide common area maintenance ("CAM") services to our occupiers, for which we derive income from maintenance services (which include a margin on the expenses incurred for providing such services). For our other Portfolio assets, CAM services are provided by external facility managers that either (i) recover the CAM charges directly from the occupier in case of occupied areas or (ii) recover the CAM charges from the respective Asset SPVs in case of vacant areas.

  Cost increases as a result of any of the foregoing may adversely affect our profitability, margins and cash flows. Circumstances such as a decline in market rent or pre-term lease cancellation may cause revenue to decrease, although the expenses of owning and operating a property may not decline in line with the decrease in revenue. While certain expenses may vary with occupancy, operating and maintenance expenses such as those relating to general maintenance, housekeeping and security services may not decline even if a property is not fully occupied.

₹16,690 million
Facility rentals

₹1,777 million
Income from maintenance services

Basis of preparation of consolidated financial statements

The Consolidated Financial Statements of the Embassy Office Parks Group comprises the Consolidated Balance Sheet and the Consolidated Statement of Net Assets at fair value as on March 31, 2020, the Consolidated Statement of Profit and Loss, including other comprehensive income, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Unitholders' Equity, the Statement of Net Distributable Cash flows of Embassy REIT and each of the SPVs, the Consolidated Statement of Total Returns at fair value and a summary of significant accounting policies and other explanatory information for the year ended March 31, 2020. The Consolidated Financial Statements were approved for issue in accordance with the resolution passed by the Board of Directors of the Manager on behalf of the Trust on May 19, 2020. The Consolidated Financial Statements have been prepared in accordance with the requirements of SEBI (Real Estate Investment Trusts) Regulations, 2014 as amended from time to time read with SEBI Circular No. CIR/IMD/DF/146/2016 dated December 29, 2016 ("SEBI Circular"); Indian Accounting Standard prescribed under Section 133 of the Companies Act, 2013, read with relevant rules issued thereunder and other accounting principles generally accepted in India, to the extent not inconsistent with the SEBI Circular.

It is to be noted that Embassy REIT was listed on April 1, 2019 and the Embassy REIT assets were acquired between March 22, 2019 and March 25, 2019. The information for the financial year ended March 2019 presented in this Section is derived from the audited combined financial statements, and the information for the financial year ended March 2020 is derived from the consolidated audited financial statements of the Embassy REIT.

Summary of significant accounting policies

- **New and amended standards (Ind AS 116 Leases):** Embassy Office Parks Group applied Indian Account Standards 116 Leases for the first time. Ministry of Corporate Affairs ("MCA") through Companies (Indian Accounting Standards) Amendment Rules, 2019 and Companies (Indian Accounting Standards) Second Amendment Rules, has notified Ind AS 116 Leases which replaces the existing lease standard, Ind AS 17 leases. Ind AS 116 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. It introduces a single, on-balance sheet lease accounting model for lessees.

  Effective April 1, 2019, the Embassy Office Parks Group has adopted Ind AS 116 "Leases" and applied the standard to all lease contracts existing on April 1, 2019 using the modified retrospective method prescribed in para C8(b)(ii) to ongoing leases as on April 1, 2019. The right of use asset and lease liability has been recognised on the date of initial application i.e. April 1, 2019. Accordingly, the comparatives have not been restated and hence not comparable with previous period figures.

- **Use of judgement and estimates:** The preparation of Condensed Consolidated Financial Statements in conformity with generally accepted accounting principles in India requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

  Estimates and underlying assumptions are reviewed on a periodic basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

  Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Condensed Consolidated Financial Statements is included in the following notes:

  1. Business combinations and impairment of goodwill and intangible assets
  2. Classification of lease arrangements as finance lease or operating lease
  3. Classification of assets as investment property or as property, plant and equipment
  4. Significant judgement involved in the purchase price allocation of the assets acquired and liabilities assumed on account of Business Combination and deferred tax accounting on the resultant fair value accounting
  5. Classification of Unitholders' funds

     Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment during the year ended March 31, 2020 is included in the following notes:

     i. Determining fair value of Investment Properties and Property, Plant and Equipment - The fair value of investment properties and property, plant and equipment are reviewed regularly by the management with reference to independent property valuations and market conditions on half yearly basis. The independent valuers are independent appraisers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Judgement is also applied in determining the extent and frequency of independent appraisals.
     ii. Useful lives of Investment Property and Property, Plant and Equipment
     iii. Valuation of financial instruments
     iv. Recognition of deferred tax asset on carried forward losses and recognition of minimum alternate tax credit: availability of future taxable profit against which tax losses carried forward can be used. Further, significant judgements are involved in determining the provision for income taxes, including recognition of minimum alternate tax credit, in SPVs

₹647 million
Revenue from room rentals

₹392 million
Revenue from sale of food and beverages

₹1,566 million
Income from generation of renewable income

entitled for tax deduction under Section 80IAB of the Income Tax Act, 1961, wherein the tax deduction is dependent upon necessary details available for exempt and non-exempt income.

v. The Group has considered the possible effects that may result from the pandemic relating to COVID-19 on the carrying amounts of goodwill, investment property (including under development), property, plant and equipment, capital work-in-progress, equity accounted investee, intangible assets and receivables. In developing the assumptions relating to the possible future uncertainties in the global economic conditions because of this pandemic, the Group, as on the date of approval of these financial statements, has used internal and external sources of information including reports from International Property Consultants and related information, economic forecasts and consensus estimates from market sources on the expected future performance of the Group. The Group has performed sensitivity analysis on the assumptions used and based on current estimates expects the carrying amount of these assets as reflected in the balance sheet as on March 31, 2020 will be recovered. The impact of COVID-19 on the Group's financial statements may differ from that estimated as on the date of approval of these consolidated financial statements.

Profit and Loss Statement Analysis

Overview:-

Particulars	FY2020 (Consolidated)	%	FY2019 (Combined)	%
Revenue from operations	21,449.22	100%	18,770.81	100%
Interest income	477.35	2%	1,218.87	6%
Other income	513.00	2%	320.40	2%
Expenses				
Cost of materials consumed	118.94	1%	58.19	0%
Employee benefits expense	377.17	2%	206.31	1%
Operating and maintenance expenses	627.46	3%	717.12	4%
Repairs and maintenance	1,215.38	6%	1,256.58	7%
Valuation expenses	9.74	0%	-	0%
Insurance expenses	66.74	0%	56.37	0%
Investment management fees	700.94	3%	402.86	2%
Trustee fees	2.96	0%	-	0%
Legal and professional fees	427.14	2%	451.22	2%
Other expenses	1,246.33	6%	2,024.87	11%
Earnings/(loss) before finance costs, depreciation, amortisation, impairment loss and tax	**17,646.77**	**82%**	**15,136.56**	**81%**
Finance costs	3,803.54	18%	7,059.81	38%
Depreciation and amortisation expense	5,281.24	25%	3,563.19	19%
Impairment loss	1,775.98	8%	-	0%
Profit/(loss) before share of profit of equity accounted investee and tax	**6,786.01**	**32%**	**4,513.56**	**24%**
Share of profit after tax of equity accounted investee	1,169.33	5%	1,151.53	6%
Profit/(loss) before tax	**7,955.34**	**37%**	**5,665.09**	**30%**
Tax Expense	300.00	1%	2,011.80	11%
Profit/(loss) for the year	**7,655.34**	**36%**	**3,653.29**	**19%**
Remeasurements of defined benefit liability, net of tax	0.16	0%	0.51	0%
Total comprehensive income/(loss) attributable to Unitholders for the year	**7,655.50**	**36%**	**3,653.80**	**19%**

Revenue from Operations

Particulars	For the year ended March 31, 2020 (₹ in million)	For the year ended March 31, 2019 (₹ in million)	% Change
Facility rentals	16,689.99	14,795.15	12.81%
Maintenance services	1,777.43	1,640.07	8.38%
Income from finance lease	2.28	55.05	(95.86)%
Room rentals	647.40	548.00	18.14%
Sale of food and beverages	391.89	217.93	79.82%
Income from generation of renewable energy	1,566.25	1,386.16	12.99%
Other operating income			
- hospitality	103.40	82.51	25.32%
- others	270.58	45.94	488.99%
	21,449.22	**18,770.81**	**14.27%**

Our profit for the period ending FY2020 was ₹ 7,665.50 million, an increase of ₹ 4,001.70 million, or 110%, compared to ₹ 3,653.80 million in FY2019.

Our revenue from operations comprises the following sources:

Facility rentals

Revenue from facility rentals comprises the base rental from our properties, car parking income, fit-out rentals and other rentals, as discussed below:

- Base rentals: Base rentals comprises rental income earned from the leasing of our assets;
- Car parking income: Car parking income comprises revenue earned from the operations of the parking facilities located at our properties; and
- Fit-out rentals: For some of our occupiers, we provide customised alterations and enhancements as per the occupiers' requirements (as opposed to warm shell premises that contain only minimally furnished interiors). For such properties, we recover the value of the fit-outs provided through fit-out rentals.

Facility Rentals for the portfolio increased by ₹1,894.84 million or 12.81%, from ₹14,795.15 in FY2019 to ₹16,689.99 in FY2020, primarily due to:-

– Contracted revenue:- Contracted lease escalation on c.8.8 msf

– Lease up and mark-to-market (MTM):-

  • Lease up of c.2.4 msf across Embassy Manyata, FIFC, Embassy 247, Embassy TechZone and others

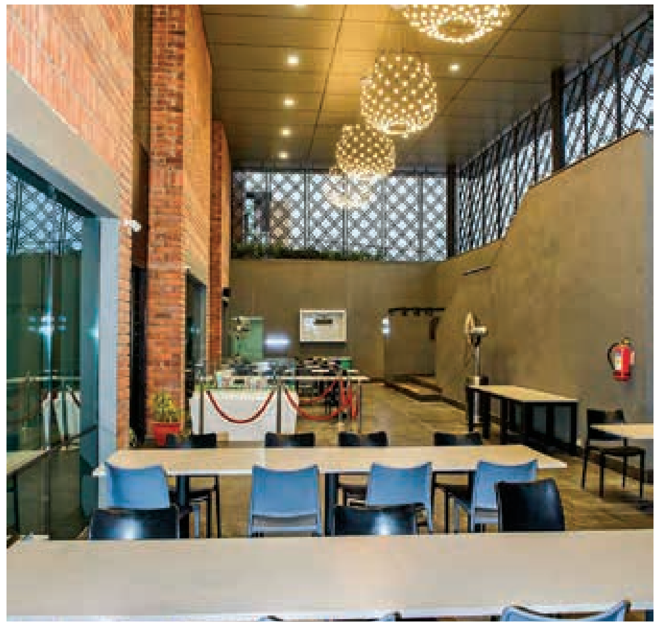
  • MTM on c.1.1 msf of ultimate lease expiries at Embassy Manyata, Embassy 247 and others

– New Development:- Lease-up of c.0.5 msf Tower 3 at Embassy Oxygen

Asset	Amount	% of total movement
Year ended March 31, 2019	14,795.15	
Bifurcation of change:		
Contracted Revenue	445.14	23%
Lease-up, Vacancy & MTM	1,161.78	61%
New Development	140.23	7%
Others	147.68	8%
Year ended March 31, 2020	16,689.99	

Maintenance services

Income from maintenance services consists of the revenue that we receive from our occupiers for the Common Area Maintenance (CAM) services that we provide at the following Portfolio assets: Express Towers, Embassy 247, FIFC, Embassy Oxygen, Embassy Galaxy, Embassy One, Embassy Quadron and Embassy Qubix.



Income from maintenance services is generally a function of our maintenance expenses at the above Portfolio assets, with a change in maintenance expenses resulting in a corresponding change in maintenance service income along with the impact of lease up of vacant area at our properties.

Income from maintenance services for the portfolio increased by ₹137.36 million or 8.38%, from ₹1,640.07 in FY2019 to ₹1,777.43 in FY2020, primarily due to lease up of vacant spaces and new development as mentioned above.

Income from finance lease

Income from finance leases comprise income from fit-out rentals where such leases are classified as finance leases. Leases are classified as finance leases when substantially all of the risks and rewards of ownership transfer to the lessee.

Income from finance lease decreased from ₹55.05 million in FY2019 to ₹2.28 million in FY2020 on account of completion of fit-out tenure for a substantial portion of such leases.

Revenue from room rentals

Revenue from room rentals comprises revenue generated by letting out hotel rooms at the Hilton @ Embassy GolfLinks and Four Seasons Hotel.

Revenue from room rentals increased by ₹99.40 million or 18.14%, from ₹548 million in FY2019 to ₹647.40 million in FY2020, primarily due to launch of 230 key Four Seasons Hotel in May 2019.

Sale of food and beverages

Sale of food and beverages comprises income from the sale of food and beverages at the Hilton @ Embassy GolfLinks and the Four Seasons Hotel.

Revenue from sale of food and beverages increased by ₹173.96 million or 79.82%, from ₹217.93 million in FY2019 to ₹391.89 million in FY2020, owing to start of operations of the Four Seasons Hotel from May'19.

	Hilton @ Embassy GolfLinks		Four Seasons @ Embassy One	
	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19
Keys	247	247	230	NA
Rooms Available	90,402	90,155	77,280	NA
Rooms Sold	57,545	62,501	13,243	NA
Average Occupancy	64%	69%	17%	NA
Average Daily Rate (₹)	9,509	9,378	10,238	NA
Revenue Per Available Room (₹)	6,053	6,501	NM	NA
Total Revenue (₹ million)	826	848	348	NA
GOP Margin	38%	38%	NM	NA

Income from generation of renewable energy

The solar plant at Embassy Energy is situated in the Bellary district of Karnataka. It commenced its power generation in March 2018.

Income from generation of renewable energy increased by ₹180.09 million or 12.99% from ₹1,386.16 million in FY2019 to ₹1,566.25 million in FY2020, owing to 8% increase in units generated and sold and also due to change in mix of industrial and commercial tariffs achieved as compared to the previous year.

	31-Mar-20	31-Mar-19
Capacity (MW)	100	100
Solar Units Generated (mn units)	186	175
Solar Units Consumed (mn units)	184	175
Average Blended Tariff (₹ per unit)	8.7	8.1

Other operating income

Other operating income primarily includes revenue from ancillary operating departments (such as laundry, business centre, telephone, travel desk and rental income from the spa) at Hilton @ Embassy GolfLinks and the Four Seasons Hotel and other operating income (primarily from events and other ancillary services at the integrated office parks and city centre office buildings).

Other operating income increased by ₹ 20.89 million due to start of operations at Four Seasons Hotel and by ₹224.64 million majorly due to rental compensation income received for under-construction M3 Block A as per terms of the agreement.

Property-wise revenue from operations

Property wise rental income and other operating income for each of the properties forming part of the Portfolio, as set forth in the below table:

Asset SPV	Property Name	Location	For the year ended March 31, 2020		For the year ended March 31, 2019	
			Revenue from operations	% of total revenue from operations	Revenue from operations	% of total revenue from operations
EOPPL	Embassy TechZone	Pune	1,497.83	7%	1,049.70	6%
MPPL	Embassy Manyata	Bengaluru	8,794.81	41%	8,142.15	43%
EEPL	Embassy Energy	Bellary	1,566.25	7%	1,386.16	7%
UPPL	Hilton@ Embassy GolfLinks	Bengaluru	825.62	4%	848.44	5%
ETPL	FIFC	Mumbai	925.64	4%	462.59	2%
GSPL	Embassy Galaxy	Noida	870.47	4%	860.63	5%
IENMPL	Express Towers	Mumbai	1,490.06	7%	1,461.82	8%
OBPPL	Embassy Oxygen	Noida	1,379.28	6%	1,210.89	6%
QBPL	Embassy Quadron	Pune	1,440.50	7%	1,444.58	8%
QBPL	Hotel, Retail and Office at Embassy One	Bengaluru	379.28	2%	-	-
QBPPL	Embassy Qubix	Pune	904.16	4%	866.46	5%
VCPPL	Embassy 247	Mumbai	1,375.32	6%	1,037.41	6%
			21,449.22	**100%**	**18,770.81**	**100%**

Interest income

Interest comprises the following sources: interest income on (i) debentures; (ii) inter-corporate deposits; (iii) fixed deposits with banks; (iv) security deposits; (v) loan to others; (vi) other statutory deposits; (vii) income-tax refunds, and (viii) others;

Interest income for FY2020 was ₹ 477.35 million, a decrease of ₹741.52 million or 60.84% due to settlement of all related party inter-corporate deposits prior to March 31, 2019.

Other Income

Particulars	For the year ended March 31, 2020	For the year ended March 31, 2019	% Change
Net changes in fair value of financial assets	18.45	74.32	(75%)
Liabilities no longer required written back	13.29	43.95	(70%)
Profit on sale of mutual funds	359.96	150.56	139%
Miscellaneous	121.30	51.57	135%
	513.00	**320.40**	**60.11%**

The increase is mainly on account of profit on sale of investments in mutual funds as well as change in fair value of financial assets due to our treasury operations during the year.

Expenses

Particulars	For the year ended March 31, 2020	For the year ended March 31, 2019	% Change
Cost of materials consumed	118.94	58.19	104.40%
Employee benefits expense	377.17	206.31	82.82%
Operating and maintenance expenses	627.46	717.12	(12.50%)
Repairs and maintenance	1,215.38	1,256.58	(3.27%)
Valuation expenses	9.74	-	-
Insurance expenses	66.74	56.37	18.40%
Investment management fees	700.94	402.86	73.99%
Trustee fees	2.96	-	-
Legal and professional fees	427.14	451.22	(5.34%)
Other expenses	1,246.33	2,024.87	(38.45%)
	4,792.80	**5,173.52**	**(7.36%)**

Expenses comprises of the following: -

Cost of materials consumed

Cost of materials consumed includes cost of materials consumed at the Hilton @ Embassy GolfLinks and the Four Seasons Hotel primarily towards the provision of food and beverage services to the guests at the hotel.

Cost of materials consumed for FY2020 was ₹ 118.94 million, an increase of ₹ 60.75 million, or 104.40%, compared to ₹ 58.19 million in FY2019 due to start of operations at the Four Seasons Hotel.

Employee benefits expense

Employee benefits expenses primarily include salaries and wages, contribution to provident and other funds and staff welfare expenses in relation to the Hospitality operations at the Hilton @ Embassy GolfLinks and the Four Seasons Hotel.

Employee benefits expense for FY2020 was ₹377.17 million, an increase of ₹170.86 million or 82.82% as compared to ₹206.31 million for FY2019. The increase is on account of employee costs incurred at the Four Seasons Hotel.

Operating and maintenance expenses

Operating and maintenance expenses include power and fuel expenses and operating consumables.

Operating and maintenance expenses for FY2020 was ₹627.46 million, a decrease of ₹89.66 million or 12.50% as compared to ₹717.12 million for FY2019. The reduction in expenses is primarily on account of operationalisation of the 220 KVA sub-station at Embassy Manyata.

Repairs and maintenance

Repairs and maintenance expenses include repairs towards common area maintenance, buildings, machinery, and others.

Repair and maintenance expenses for FY2020 was ₹1,215.38 million, a decrease of ₹41.20 million or 3.27% as compared to ₹1,256.58 million for FY2019. The previous year expense included lobby refurbishment works, remedial works, painting works at Embassy 247 Park, FIFC and Embassy Quadron, partially offset by increase in maintenance cost at Embassy Energy during FY2020.

Insurance

Insurance expenses for FY2020 was ₹66.74 million, an increase of ₹10.37 million or 18.40% as compared to ₹56.37 million for FY2019. The increase is majorly on account of increase in premium paid due to enhancement of sum insured and increased scope across entities and for new development in Oxygen.

Investment management fees

This includes the Property Management Fees, REIT management fees and Secondment Fees.

- **Property Management Fees -** Pursuant to the Investment Management Agreement dated June 12, 2017 as amended, Investment Manager is entitled to fees @ 3% of the collection of Facility Rentals per annum of the relevant property in respect to operations, maintenance, administration and management of the Holdco or the SPV, as applicable. The fees have been determined to meet the ongoing costs of the Investment Manager to undertake the services provided to the Embassy REIT and its SPVs. Property Management fees for the year ended March 31, 2020 amounts to ₹ 486.13 million. In the previous year, not all the entities under REIT were subject to the property management fees and hence the increase in expense in the current year.

- **REIT Management Fees -** Pursuant to the Investment Management Agreement dated June 12, 2017, as amended, Investment Manager is entitled to fees @ 1% of REIT Distributions which shall be payable either in cash or in Units or a combination of both, at the discretion of the Manager. The fees have been determined for undertaking management of the REIT and its investments. REIT Management fees accrued for the year ended March 31, 2020 amounts to ₹ 214.81 million (March 31, 2019: ₹ Nil).

Legal and professional fees

legal and professional fees for FY2020 was ₹427.14 million, a decrease of ₹24.08 million or 5.34% as compared to ₹451.22 million for FY2019. The reduction in expenses is on account of one-time listing related expenses incurred for FY2019.

Other expenses

Other expenses for FY2020 was ₹1,246.33 million, a decrease of ₹778.55 million or 38.45% as compared to ₹2,024.87 million for FY2019. This is majorly due to a non-cash loss on settlement of a financial liability through issue of equity instrument at Hilton @ Embassy GolfLinks and one-off property tax payment at Embassy Manyata.

Earnings/(loss) before finance costs, depreciation, amortisation, impairment loss and tax

As a result of the foregoing, our profit before finance costs, depreciation, amortisation, impairment loss and tax for FY2020 was ₹ 17,646.77 million, an increase of ₹ 2,510.21 million or 16.58%, compared to ₹ 15,136.56 million in FY2019.

Finance costs

We capitalise our borrowings costs in relation to our under-construction properties. When construction is completed, the interest cost is charged to our statement of profit and loss, causing an increase in our finance costs.

Particulars	For the year ended March 31, 2020	For the year ended March 31, 2019	% Change
Interest expense			
- on borrowings from banks and financial institutions	310.15	5,083.56	(94%)
- on deferred payment liability	840.19	894.01	(6%)
- on lease deposits	312.09	341.37	(9%)
- on lease liabilities	31.20	-	100%
- accrual of premium on redemption of debentures	2,309.91	-	100%
- to related parties	-	124.35	(100%)
- on debentures	-	116.09	(100%)
- others	-	500.43	(100%)
	3,803.54	**7,059.81**	**(46%)**

- The decrease in interest expense on borrowings from banks and financial institutions by ₹ 4,773.41 million, or 93.90% from ₹ 5,083.56 million in FY2019 to ₹ 310.15 million in FY2020 is primarily due to a portion of the net proceeds from the issue of Units and Bond raise by Embassy REIT being utilised towards full repayment of existing loans availed by SPVs from banks and financial institutions.

- Increase in accrual of premium on redemption of debentures is a result of the Non-Convertible Debentures raised by the REIT amounting to ₹ 36,500 million during the year.

- Decrease in other interests and borrowing cost is due to settlement of all intercorporate and related party loans during the previous year.

Depreciation and amortisation expense

Depreciation and amortisation expense for FY2020 was ₹5,281.24 million, an increase of ₹1,718.05 million or 48.22% from ₹3,563.19 million majorly due to one-time fair valuation of property, plant and equipment and investment property on business combination.

Impairment loss

Impairment loss of ₹1,775.98 million was recognised in FY2020 in relation to the Hospitality segment i.e. Hilton @ Embassy GolfLinks and the Four Seasons Hotel. The impairment charge arose in the Hotel CGU due to slower ramp up of occupancy coupled with the current economic conditions due to COVID-19 pandemic. The annual impairment test performed considers the current economic conditions and revised business plans to determine the higher of the "value in use" and the" fair value less cost to sell" in accordance with Ind AS 36.

Profit before share of profit of equity accounted investees and tax

As a result of the foregoing, we recorded ₹ 6,786.01 million in profit before share of profit of equity accounted investees and tax for FY2020, as compared to ₹ 4,513.56 million in FY2019, an increase of 50.35%.

Share of profit after tax of equity accounted investee

The share of profit in Embassy GolfLinks as equity accounted investees (net of tax) for FY2020 was ₹ 1,169.33 million, an increase of ₹ 17.80 million, or 1.55%, compared to ₹ 1,151.53 million in FY2019 due to increase in revenue by ₹ 413 million which were offset by an increase in depreciation, finance cost and dividend distribution tax.

Profit before tax

As a result of the foregoing, we recorded a profit before tax of ₹ 7,955.34 million for FY2020, as compared to a profit before tax amounting to ₹ 5,665.09 million in FY2019, an increase of 40.43%.

Income tax expense

The portfolio of assets which we own are housed in about 12 SPVs. Each of these SPVs have different tax considerations including SEZ benefits, available MAT credit. Hence, these SPVs have varying current tax percentages. On a blended basis, our cash taxes for FY2020 work out to approximately. 21% of our Profit Before Tax at SPV level and approximately. 6% of our total revenues from operations at a REIT level.

The Government of India has introduced the Taxation Laws (Amendment) Ordinance, 2019 ("Ordinance"), announcing changes to corporate tax rates in the Income Tax Act, 1961, with effect from April 1, 2019. Existing companies have been provided an option to pay income tax at a concessional rate of 22%, subject to conditions prescribed therein in the Ordinance. Further, based on the amendments to the Finance Bill, 2020 dated March 27, 2020, which provides a Nil tax on dividends distributed by REITs in the hands of Unitholders, provided, the SPVs have not opted for such concessional tax rate under Section 115BAA of the IT Act.

Our tax expense was as follows:-

Particulars	For the year ended March 31, 2020	For the year ended March 31, 2019	% Change
Current tax	1,361.39	1,417.26	(4%)
Deferred tax charge/(credit)	(11.27)	883.69	(101%)
Minimum alternate tax credit entitlement (MAT)	(1,050.12)	(289.15)	263%
	300.00	**2,011.80**	**(85%)**

- **Current tax:-** The decrease in current tax is mainly on account of reduction in taxes in Quadron due to acquisition of Embassy One which is currently under stabilisation.

- **Deferred tax:-** The decrease is majorly due to reversal of deferred tax asset in FY2019 on the expiry of carry forward losses due to change in shareholding of the SPVs pursuant to acquisition by Embassy REIT.

- **MAT:-** The increase in MAT credit is on account of recognition of MAT credit of previous years pursuant to reasonable evidence being available on the utilisation of such credits post acquisition by Embassy REIT.

Profit for the year

As a result of the foregoing, our profit after tax for the year ending FY2020 was ₹ 7,655.34 million, an increase of ₹ 4,002.05 million, or 109.55%, compared to ₹ 3,653.29 million in FY2019.

Non-GAAP Measures—Net Operating Income ("NOI")

Based on the 'management approach' as specified in Ind AS 108, our chief operating decision maker ("CODM") evaluates our performance and allocates resources based on an analysis of various performance indicators by operating segments. We use NOI internally as a performance measure and believe it provides useful information to investors regarding our financial condition and results of operations because it provides a direct measure of the operating results of our business segments. Other companies may use different methodologies for calculating NOI, and accordingly, our presentation of the same may not be comparable to other companies. We define NOI for each of our segments as follows:

a) **Commercial Offices segment:**
NOI for commercial offices is defined as Revenue from operations (which includes (i) facility rentals, (ii) maintenance services income, (iii) income from finance lease, and (iv) other operating income for Commercial Offices) less Direct operating expenses (which includes (i) Operating and maintenance expenses including common area maintenance expenses (ii) property taxes, (iii) rent and (iv) insurance).

b) **Hospitality segment:**
NOI for hospitality segment is defined as Revenue from operations (which includes (i) room rentals, (ii) sale of food and beverages, (iii) other operating income from hospitality) less Direct operating expenses (which includes (i) cost of materials consumed, (ii) employee benefits expenses, (iii) Operating and maintenance expenses excluding management fees, and (iv) Other expenses).

c) **Other segment:**
NOI for other segments is defined as Revenue from operations (which includes income from generation of renewable energy) less Direct operating expenses (which includes (i) Operating and maintenance expenses and (ii) Other expenses).

Certain income (such as interest, dividend and other income) and certain expenses (such as Other expenses excluding Direct operating expenses, depreciation, amortisation, impairment and finance cost) are not specifically allocable to segments and accordingly these expenses are adjusted against the total income of the Embassy Office Parks Group.

The table below gives the computation of our NOI and a reconciliation upto EBITDA:-

	For the Financial Year ended			
	FY2020	FY2019	Variance (%)	
Revenue from Operations	21,449	18,771	14%	NOI
Property Taxes and Insurance	(771)	(970)	(21%)	
Direct Operating Expenses	(2,509)	(2,059)	22%	
Net Operating Income	**18,170**	**15,741**	**15%**	
Other Income	1,293	1,539	(16%)	EBITDA at SPV level
Property Management Fees	(486)	(303)	61%	
Indirect Operating Expenses	(660)	(1,747)	(62%)	
EBITDA at SPV level	**18,316**	**15,231**	**20%**	

Segment level profitability

Particulars	Commercial Offices		Hospitality		Other Segments	
	FY2020	FY2019	FY2020	FY2019	FY2020	FY2019
Revenue from operations	18,709.58	16,536.21	1,173.39	848.44	1,566.25	1386.16
Net Operating Income	16,627.61	14,140.05	105.40	264.05	1,436.53	1337.20
NOI margins	89%	86%	9%	31%	92%	96%

NOI margins

Our NOI margin for the year was at 85% which reflects our commitment to business efficiency. Our NOI has increased by 15% mainly due to increase in our Revenue from Operations as well as reduction in operating expenses due to successful implementation of certain cost-saving initiatives at our Embassy Manyata property. In terms of our NOI drivers, contracted rental escalations, new lease-up and mark-to-market re-leases contributed to over 95% of the y-o-y NOI increase.

Our commercial office segment contributed 92% of our Revenue from Operations during the year underlying our philosophy of primarily being a commercial office focused REIT.

Our hospitality segment has decreased y-o-y due to additional operating costs during the year due to recent launch of Four Seasons Hotel which is under stabilisation.

Other segment has shown a marginal growth of 7% y-o-y due to stabilisation of power generation at our solar plant.

Increase in NOI from previous year to the current year is due to the following factors: -

Particulars	Contracted Revenue	Vacancy lease-up and MTM	Development	Others
Amount (₹ in million)	1,174	1,132	181	(97)
% of NOI increase	48%	47%	7%	(2%)
Key	• Contracted lease escalation on c.8.8 msf	• Lease up of c.2.4 msf across Embassy Manyata, FIFC, Embassy 247, Embassy TechZone & others	• Lease-up of c.0.5 msf Tower 3 at Embassy Oxygen	• Launch of 230 key Four Seasons Hotel in May'19, hotel under stabilisation
Drivers	• Increase in maintenance and other contracted income	• MTM on c.1.1 msf of ultimate lease expiries at Embassy Manyata, Embassy 247 & others		• Revenue from Solar and others
		• Net of downtime		

Liquidity and capital resources

Overview

During the year ended March 31, 2020, we:-

- Raised ₹36,500 million in two tranches through issue of Non-Convertible Debentures. The funds have been utilised for: -
  - Partial or full repayment or pre-payment of bank/financial institution debt of certain SPVs and granting of shareholder debt – ₹35,500 million
  - General purposes including issue expenses – ₹950 million
- Raised debt from banks and financial institutions at SPV level of ₹15,206 million at weighted average borrowing cost of 8.85% as follows:
  - Term Loan at Embassy Manyata – ₹3,397 million
  - Construction Finance Loan at Embassy Manyata – ₹8,400 million (including undrawn facility of ₹3,997 million)
  - Term Loan at Embassy Oxygen – ₹3,409 million

Financial resources

As of March 31, 2020, we had cash and cash equivalents (net of book overdrafts) of ₹ 3,111.49 million. Cash and cash equivalents primarily consist of cash on hand; balances with banks in current accounts, escrow accounts and deposit accounts with original maturity below three months (less book overdrafts). We also maintained treasury balances through investment in liquid mutual funds amounting to ₹ 11,549 million as at March 31, 2020. We continue to maintain a strong liquidity position consisting of cash and treasury balances as mentioned above.

The following table sets forth a selected summary of our statement of cash flows for the periods indicated:

	For the year ended March 31, 2020	For the year ended March 31, 2019
Net cash generated from operating activities	16,914.76	12,394.76
Net cash generated from/(used in) investing activities	(21,442.42)	1,056.41
Net cash generated from/(used in) financing activities	(41,973.60)	34,724.61
Net (decrease)/increase in cash and cash equivalents	**(46,501.26)**	**48,175.78**
Cash and cash equivalents at the beginning of the year	49,612.75	1,436.97
Cash and cash equivalents at the end of the year	**3,111.49**	**49,612.75**

Cash flow from operating activities

Net cash generated from operating activities for FY2020 was ₹ 16,914.76 million. Our profit before tax was ₹ 6,786.01 million which was adjusted for share of profits for equity accounted investee, non-cash items and items relating to financing and investing activities, by a net amount of ₹ 10,128.75 million, primarily for:

- finance cost amounting to ₹ 3,803.54 million;
- depreciation and amortisation expense amounting to ₹ 5,281.24 million;
- impairment loss on property, plant and equipment amounting to ₹ 1,775.98 million;
- profit on sale of investments amounting to ₹359.96 million and
- interest income of ₹451.04 million.

There were also changes in operating assets and liabilities, comprising:

- a net decrease in trade receivables, loans and other financial assets amounting to ₹903.84 million;
- a net increase in trade payable, other financial liabilities and provisions amounting to ₹640.86 million.

In addition, we paid income tax of ₹ 1,429.28 million during FY2020.

Cash flow from investing activities

Our net cash used in investing activities for FY2020 was ₹ 21,442.42 million, primarily due to:

- Investment of the surplus funds in mutual funds amounting to ₹9,251.09 million.
- Investment in debentures (net of repayment) in our associate Company amounting to ₹724.38 million.
- Cash spent on Investment Property and Property, Plant and Equipment and intangibles including Capital Work-in-progress and Investment Property under Development of ₹11,797.81 million majorly includes cash spent on construction activities at Embassy Manyata, Embassy TechZone and Embassy Oxygen as well as acquisition of M3 Block B at Embassy Manyata.
- Payment for acquisition of the balance minority stake of Express Towers amounting to ₹3,450.00 million.
- Redemption of fixed deposits with banks amounting to ₹2,760.20 million. These were held as lien towards the loan obtained from bank.
- Dividend received of ₹ 535 million from our associate Company.
- Interest received amounting to ₹ 485.66 million from our associate Company and fixed deposits held on lien and for M3 Block B.

Cash flow from financing activities

Our net cash used in financing activities in FY2020 was ₹ 41,973.60 million, primarily due to:

- Repayment of borrowings amounting to ₹ 73,462.66 million from the IPO proceeds and Bond raise received by REIT.
- Proceeds from borrowings (net off issue expenses) amounting to ₹ 48,947.26 includes issue of non-convertible debentures amounting to ₹ 36,500 million as well as other construction finance and term loans taken for the purpose of construction activity.
- Interest paid of ₹1,562.48 million for the loan taken from banks and financial institutions.
- Transaction costs related to issue of units of ₹2,378.63 million paid in the current year.
- Distribution to Unitholders including taxes on account of distribution by SPVs amounting to ₹13,526.72 million.

Distributions

Under the provisions of the REIT Regulations, Embassy Office Parks REIT is required to distribute to the Unitholders not less than 90% of the net distributable cash flows ('NDCF') of Embassy Office Parks REIT and the current policy of the Manager is to comply with such requirement. The NDCF is calculated in accordance with the REIT Regulations and in the manner provided in the NDCF framework defined by the Manager. The aforesaid net distributable cash flows are made available to Embassy Office Parks REIT in the form of (i) interest paid on Shareholder Debt provided by Embassy Office Parks REIT to the SPVs/Holding Company, (ii) Principal repayment of Shareholder Debt, and (iii) dividend declared by the SPVs/ Holding Company and received by Embassy Office Parks REIT. Since Embassy Office Parks REIT has committed to quarterly distributions, any shortfall regarding paying minimum quarterly distribution by the SPVs and Holding Company to Embassy Office Parks REIT, post interest paid on Shareholder Debt, Interim Dividend payments and Principal repayment of Shareholder Debt, would be done by declaring additional dividend, to the extent permitted under the Companies Act, 2013. Repayment of short-term construction debt given to SPVs are not considered for the purpose of distributions.

The Board of Directors of the Manager to the Trust, in their meeting held on May 19, 2020, have declared distribution to Unitholders of ₹ 6.89 per unit which aggregates to ₹ 5,316.77 million for the quarter ended March 31, 2020. The distributions of ₹ 6.89 per unit comprises ₹ 2.49 per unit in the form of interest payment, ₹ 0.23 per unit in the form of dividend and the balance ₹ 4.17 per unit in the form of amortisation of SPV debt.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

Along with distribution of ₹ 13,504.15 million/ ₹ 17.50 per unit for the nine-months ended December 31, 2019, the cumulative distribution for the year ended March 31, 2020 aggregates to ₹ 18,820.92 million/₹ 24.39 per unit.

Tax implications of the distributions in the hands of Unitholders

The income-tax treatment for distributions by Embassy REIT in the hands of the Unitholders under the Indian Income-tax Act, 1961 ('the Act') read with the Income-tax Rules, 1962 ('the Rules') applicable for Financial Year 2020-2021 are as follows:-

- Interest income - Taxable in the hands of the Unitholders at the applicable rates.
- Dividend income - Exempt in the hands of the Unitholders.
- Amortisation of SPV debt- Exempt in the hands of the Unitholders.
- On sale of Units:- Long-term capital gains exceeding ₹ 1 lakh on sale of units held for more than 36 months– 10% (plus applicable surcharge and cess); and Short-term capital gains on sale of units held for up to 36 months – 15% (plus applicable surcharge and cess).

Borrowings

The following table presents a breakdown of borrowings as on March 31, 2020 and the corresponding ratios:-

Below is a brief overview of the borrowings: -

Debt Maturity Schedule as of March 31, 2020

(₹ in million)

Description	Rating	Fixed/ Floating	Total Facility	Balance Facility	Out-standing Principal	Amor-tized Cost	Interest Rate	Maturity Date	Principal Repayment Schedule FY21	FY22	FY23	FY24	FY25 & Beyond	Total
At REIT														
Embassy Office Parks REIT Series I NCD (Tranche I)	CRISIL AAA/ Stable	Fixed	30,000	-	30,000	32,351	9.40%	Jun-22	-	-	30,000	-	-	30,000
Embassy Office Parks REIT Series I NCD (Tranche II)	CRISIL AAA/ Stable	Fixed	6,500	-	6,500	6,668	9.05%	Jun-22	-	-	6,500	-	-	6,500
At SPV														
Deferred Payment Liability (EEPL)	-	Fixed	6,854	-	6,489	7,279	12.72%	Feb-33	212	241	273	310	5,453	6,489
Term Loan (Embassy Manyata)	-	Floating	3,397	-	3,371	3,362	8.85%	Dec-22	58	58	3,255	-	-	3,371
Construction Finance (Embassy Manyata)	CRISIL AAA/ Stable	Floating	8,400	3,997	4,403	4,381	9.15%	Sep-23	-	-	-	4,403	-	4,403
Term Loan (Embassy Oxygen)	CRISIL AA/ Stable	Floating	3,409	-	3,403	3,390	8.45%	Sep-31	62	110	160	191	2,880	3,403
Others	-	-	NM	-	31	31	10.50%	-	15	16	-	-	-	31
Total			**58,560**	**3,997**	**54,197**	**57,461**	**9.61%**		**346**	**425**	**40,188**	**4,904**	**8,333**	**54,197**

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

Key leverage metrics

At c.15% Net Debt to TEV, our conservative Balance Sheet provides significant flexibility to weather the near term COVID-19 impact:

Particulars	March 31, 2020
Net Debt to TEV	15.0%
Net Debt to GAV	14.5%
Net Debt to EBITDA	2.7x
Interest Coverage Ratio	
- excluding capitalised interest	5.1x
- including capitalised interest	4.0x
Available Debt headroom	₹114bn

Capital expenditures and capital investments

Historical capital expenditure

Capital expenditure comprises of additions during the year to property, plant and equipment, capital work-in-progress, investment property and investment property under development.

During the year FY2020, we have incurred capital expenditure of ₹ 11,797.81 million, primarily for the construction of the Office space (NXT) and Hotels as well as acquisition of M3 Block B at Embassy Manyata and construction of Tower 2 at Embassy Oxygen.

Planned Capital expenditure

The following table presents our development status:

Development Status as of May 19, 2020	
Embassy Manyata (NXT, c.0.8 msf)	• Occupancy certificate received in Jan'20; TIs/fit-out works underway • c.75% or c.594k sf committed
Embassy Oxygen (Tower 2, c.0.6 msf)	• Occupancy certificate received in Feb'20; TIs/fit-out works underway • c.43% or c.246k sf committed
Embassy TechZone (Hudson, c.0.5 msf) (Ganges, c.0.4 msf)	• Hudson Block – Design, excavation & sub-structure works completed; super structure work initiated • Ganges Block – Design & excavation work completed, sub-structure work underway • Targeting Jun'22 completion
Embassy Manyata M3 Parcel (Block A – c.1.0 msf) (Block B – c.0.6 msf)	• M3 Block A – Excavation and sub-structure works underway. Targeting Dec'22 completion • M3 Block B – Pre-construction works initiated. Targeting Jun'23 completion
Embassy Oxygen (Tower 1, c.0.7 msf)	• Design completed; excavation and pre-construction works initiated • Targeting Jun'23 completion

Our balance costs to be spent for Development in Progress is provided below:

Development in Progress

as of March 31, 2020

Asset	Projects	Development Area (msf)	Keys	Pre-committed/ Leased Area (%)	Occupier	Estimated/ Actual Completion Date	Balance cost to be spent (₹ in million)
Base-Build Projects							
Embassy Manyata	NXT Blocks	0.8	NA	75%	ANSR, Motorola, WeWork	Completed	739
Embassy Oxygen	Tower 2	0.6	NA	43%	MetLife	Completed	382
Embassy Manyata	Front Parcel - Hilton Hotels	NA	619	NA	NA	Jun-22	5,392
Embassy Manyata	M3 Block A	1.0	NA	0%	-	Dec-22	3,556
Embassy Manyata	M3 Block B	0.6	NA	0%	-	Jun-23	3,112
Embassy TechZone	Hudson Block	0.5	NA	0%	-	Jun-22	1,546
Embassy TechZone	Ganges Block	0.4	NA	0%	-	Jun-22	1,496
Sub-total		**3.9**	**619**				**16,222**
Upcoming Upgrade Projects							
Embassy Manyata	Flyover	NA	NA	NA	NA	Jun-21	1,438
Embassy Manyata	Master Plan Upgrade	NA	NA	NA	NA	Sep-22	1,539
Embassy TechZone	Master Plan Upgrade	NA	NA	NA	NA	Jun-21	1,029
Embassy Quadron	Master Plan Upgrade	NA	NA	NA	NA	Sep-21	350
Others	Multiple	NA	NA	NA	NA	Multiple	3,835
Sub-total		**NA**	**NA**	**NA**	**NA**		**8,191**
Total		**3.9**	**619**				**24,412**

Off-Balance Sheet Arrangements and Contingent Liabilities

We do not have any material off-balance sheet arrangements.

The table below sets forth our contingent liabilities as of March 31, 2020:-

Particulars	As at March 31, 2020	As at March 31, 2019
Claims not acknowledged as debt in respect of Income Tax matters	425.41	390.03
Claims not acknowledged as debt in respect of Service Tax matters	730.10	598.90
Claims not acknowledged as debt in respect of Property Tax matters	3,313.08	3,212.76

Net asset value (NAV)

Mr. Manish Gupta, Partner, iVAS Partners in conjunction with value assessment services undertaken by CBRE South Asia Pvt. Ltd., carried out our annual valuation as an independent valuer and valued our Portfolio at ₹ 331,683 million with c.92% of value in commercial office segment, underpinning Embassy REIT's asset quality as of March 31, 2020.

Asset wise GAV along with the key assumptions used in the valuation are as follows:-

Valuation Highlights

as of March 31, 2020

Asset	Valuation Assumptions				GAV as of March 2020 (₹ in million)		
	Discount Rate Completed	Discount Rate U/C	Cap Rate/ EBITDA Multiple	Rent/ ADR/Tariff Rate	Completed	Proposed/ U/C	Total
Commercial Assets							
Embassy Manyata	12.03%	13.00%	8.00%	90	129,952	20,154	150,106
Embassy GolfLinks	12.03%	NA	8.00%	148	27,014	-	27,014
Embassy One	12.03%	NA	7.50%	147	4,897	-	4,897
Express Towers	12.03%	NA	7.50%	270	17,866	-	17,866
Embassy 247	12.03%	NA	8.00%	110	16,624	-	16,624
FIFC	12.03%	NA	7.75%	285	13,911	-	13,911
Embassy TechZone	12.03%	13.00%	8.25%	48	14,929	6,103	21,032
Embassy Quadron	12.03%	NA	8.25%	48	13,838	-	13,838
Embassy Qubix	12.03%	NA	8.25%	48	10,085	-	10,085
Embassy Oxygen	12.03%	13.00%	8.25%	54	19,492	1,924	21,416
Embassy Galaxy	12.03%	NA	8.25%	45	8,696	-	8,696
Sub-Total (Commercial Offices)					**277,304**	**28,181**	**305,485**
Hospitality Asset							
Hilton at Embassy GolfLinks	12.63%	-	14.0x	9,000	4,436	-	4,436
Four Seasons at Embassy One	12.63%	-	14.0x	10,500	7,673	-	7,673
Hilton at Embassy Manyata	-	13.60%	14.0x	8,000	-	2,378	2,378
Hilton Garden Inn at Embassy Manyata	-	13.60%	14.0x	5,500	-	1,422	1,422
Sub-Total (Hospitality)					**12,109**	**3,800**	**15,909**
Others							
Embassy Energy	13.50%	-	NA	8.76	10,289	-	10,289
Sub-Total (Others)					10,289	-	10,289
Total					**299,702**	**31,981**	**331,683**

The computation of NAV from GAV is as follows:-

Particulars	31-Mar-20	30-Sep-19	Variance
Gross Asset Value	331,683	321,120	3%
Other Assets	69,672	67,140	
Other Liabilities	(112,254)	(98,943)	
NAV	289,100	289,317	
NAV per unit	374.64	374.93	(0.1%)

Internal control systems

Embassy REIT has a strong internal control system to manage its operations, financial reporting, and compliance requirements. The Investment Manager has clearly defined roles and responsibilities for all managerial positions. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. All the business parameters are regularly monitored, and effective steps are taken to control them. Regular internal audits are undertaken to ensure that responsibilities are executed effectively.

The Audit Committee of the Board of Directors periodically reviews the adequacy and effectiveness of internal control systems and suggests improvements to further strengthen them. The effectiveness of the internal control over financial reporting for each of the SPVs as at March 31, 2020 has been audited by S.R. Batliboi & Associates LLP, our statutory auditors who expressed an unqualified opinion on the effectiveness of each SPVs internal control over financial reporting as of March 31, 2020.

Outlook

Given the unprecedented degree of economic uncertainty due to COVID-19 disruptions, the full impact to global businesses and economies caused by the pandemic cannot be currently ascertained.

2019 was a year of record absorption for the India office market and vacancies were also at record lows at year end. In the post COVID world, consultants are projecting net absorption down 28-33% for this year with occupiers likely to defer decision-marking on new leasing while they focus on delivering business continuity to their dislocated workforce. The actual absorption recovery timeline remains uncertain.

However, we do believe that global technology spends will continue to grow, especially in digital, cloud, data services and cyber security. Further, increased cost pressures on global businesses may increase offshoring to the benefit of India office demand in the mid-term as was the case post global financial crisis in 2009.

Global companies will increasingly prefer the best properties, with high levels of compliance and service, and landlords who are well capitalised and possess strong operational track records. Occupiers will increasingly focus on wellness and enhancement of safety protocols for property management, which we believe will drive demand to our high-quality portfolio.

Supply has shrunk considerably last quarter, with consultants reporting 35-40% y-o-y drop. This trend will continue, and supply is expected to drop significantly in the mid-term due to supply chain disruptions, labour relocation challenges and liquidity pressures. While consultants estimate 25% drop in the announced supply over the next 2 years, actual competing and comparable supply for REIT properties may be even lower. This will further consolidate demand for institutional quality projects with healthy financing and project completion predictability to our benefit.

As we move into FY2021, and implement our business plans, we are now focused on execution excellence in a period of high uncertainty. Given the potential impact of COVID-19 on businesses globally is unclear and evolving, we continue to proactively manage our portfolio to mitigate its impact and emerge even stronger.

We believe that our total business ecosystem leaves us at the top of the pyramid in competing for occupiers, that our focus on operational excellence and long-term approach to value creation will continue to make us the landlord of choice in India.