

Press Release

Embassy One Developers Private Limited

February 04, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.700.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.700.00 Cr bank facilities of Embassy One Developers Private Limited (EODPL). The outlook is '**Stable**'.

Embassy One Developers Private Limited (EODPL) is a SPV, incorporated by Embassy Group and Blackstone in FY2015 and hold 45 per cent and 55 per cent, respectively. EODPL had 230 key 5-star hotel, commercial and residential projects with cumulative area of 12.21 lakh square feet. In FY2019, entire business under hotel and commercial assets were transferred to Embassy Office Parks Real Estate Investment Trust (REIT). Currently, EODPL has only one residential project of 5.28 lakh square feet. The residential project has maintenance agreement with Four Seasons Hotels Limited.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the EODPL to arrive at this rating.

Key Rating Drivers

Strengths

• Strong market position of Embassy group and Blackstone in the real estate industry

EODPL was incorporated by Embassy group and Blackstone wherein 55 percent is held by Blackstone group and the rest by Embassy group through Embassy Inn Private Limited (EIPL). Based out of Bangalore, the Embassy group is one of the leading real estate developer and has presence of more than 25 years in the real estate industry. The group has established track record of developing land of more than 55 million square feet across Indian and international markets including Bangalore, Chennai, Hyderabad, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. Embassy group's marquee residential projects includes names like Embassy Lake Terrace, Embassy Boulevard and Embassy Groove amongst others. The commercial assets developed by the group includes MKN Embassy TechZone (Malaysia) and Embassy Tech Village, Bangalore. Further, Blackstone is one of the leading private equity firms, based out of United States of America, with its real estate investments to the tune of USD 163 billion as on 31 December, 2019, globally.

In April 2019, the Embassy group and Blackstone formed India's first Real Estate Investment Trust (REIT), which is a vehicle for owning and operating revenue generating real estate assets and distributes cash flows from them to the unit-holders.

Acuite believes that the EODPL will continue to benefit from the established market position of Embassy group and support extended by Blackstone over the medium term.

• Advance stage of completion of its residential project

EODPL is currently developing Four Seasons residential project. This is a luxury residential project with ticket size in the range of Rs.7-25 Cr, located at Mekhri Circle, Bangalore. The project is at the advanced stage of completion and around 92 percent of the project cost has already been incurred as on 31 December, 2019. The project has two towers – North and South. The south tower is already completed and the occupation certificate (OC) has been received. The north tower is in under construction and is expected to be completed by June, 2020. The OC for north tower is likely to be received over the next 4-6 months. EODPL has signed contract for maintenance of the residential tower with Four Seasons Hotels Limited, which is an international luxury company based out of Canada.

Weaknesses

• Tepid sale traction leading to reliance on recovery of ICD from group company

Four Season residential project has a total of 109 units in both towers. The booking pace currently is low marked by current booking levels of 18 percent till December 2019. EODPL has Rs.85.00 Cr of receivables pending from customers for the sold inventory. The slow pace is due to the high-ticket size in the range of Rs.7-25.00 Cr, for which the demand has witnessed moderation over the last 18 to 24 months. The slow pace of booking has led to significant reliance on recovery of intercorporate deposits extended to its parent company Embassy Inn, to manage the interest and the repayment obligations. EODPL had ceded its commercial assets to the REIT for the consideration of Rs.468.00 Cr. 50 percent of the consideration was utilized towards repayment of unsecured loans and interest expenses, and the rest amounts was given as an Intercompany Corporate Deposit (ICD) to Embassy Inn Private Limited.

The subdued market scenario in the real estate sector in Bangalore in past two years has affected the cash flows from the existing projects leading to higher dependence on the refinancing of the external bank debt. The company has recently successfully refinanced its existing debt obligations. The repayment of the refinanced term loan will be commencing from June, 2020. Acuite believes that timeliness of such refinancing measures or any improvement in the sales traction resulting into healthy cash flow visibility remains a key rating sensitivity factor.

• Susceptibility to Real Estate Cyclical and Regulatory Risks

EODPL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is currently witnessing moderation in demand on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt which has had a cascading effect on the overall financing costs. Given the high degree of financial leverage the high cost of borrowing inhibits the real estate developers' ability to reduce prices. Further, the industry is exposed to regulatory risk which is likely to impact players such as EODPL thereby impacting its operating capabilities.

Liquidity position: Adequate

The liquidity of EODPL is adequate marked by the continued support received from the parent company i.e. Embassy Property Developments Private Limited. The company has also started recovering the ICD, which was extended to group company post-transfer of commercial assets to the REIT. Recently, the company has refinanced its existing debt and repayment of refinanced term loan is expected to commence from June, 2020. The demonstrated track record of refinancing its maturing obligations also exhibits the group's acceptance amongst lenders.

Rating Sensitivity

- Timely project execution as per schedule while achieving the sales traction
- Lower than expected sales traction and dilution of support from the parent company leading to increased dependence on refinancing of debt will have a negative bias on the rating

Material covenants

None

Outlook: Stable

Acuite believes that EODPL will maintain a 'Stable' outlook over medium term on account of established market position of Embassy group in the real estate industry and extensive support received from Blackstone. The outlook may be revised to 'Positive' in case the company generates higher than expected cash flows through customer advances and achieves its project completion as per scheduled timelines. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position on account of escalation of project costs or lower than expected sales traction towards these projects which may further increase the dependence on refinancing of debt.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	0.10	62.22
PAT	Rs. Cr.	113.43	-141.96
PAT Margin	(%)	111208.82	-228.15
Total Debt/Tangible Net Worth	Times	2.64	6.71
PBDIT/Interest	Times	31.88	-29.97

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	700.00	ACUITE BBB- / Stable

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