

Press Release

Embassy One Developers Private Limited

July 06, 2021



Ratings Reaffirmed

Total Instruments Rated*	Rs. 700.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B Minus**) to the Rs.700.00 Cr bank facilities of Embassy One Developers Private Limited (EODPL). The outlook is '**Stable**'.

The reaffirmation of the rating continues to draw strength from the strong market position of Embassy group and Blackstone in real estate industry, final stages of completion of its project, prime location of the project, adequate liquidity position and ability of Embassy Group to refinance the projects. These strengths are partly offset by the cyclical in real estate industry and lower traction considering the high ticket size per apartment in the project

About the Company

Embassy One Developers Private Limited (EODPL) is a SPV, formed in 2007, by Embassy Group and Blackstone. EODPL was incorporated with intent to undertake Embassy One project, Bellary Road, Bangalore. Blackstone holds 55 per cent of the equity share capital and rest is held by Embassy Inn Private Limited.

About the Group

Embassy Group was incorporated in 1993 by Mr. Jitendra Virwani. The group is one of the leading real estate developers. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the Embassy group owns properties in the hospitality segment and is developing industrial parks and warehouses across India. It also has an extensive land bank of 1000+ acres across India. The operation spread across Indian and international markets that include Bangalore, Chennai, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group from time to time partners with several established market players Like, Blackstone, Warburg Pincus, Taurus Investments as well as different financial institutions to execute projects.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of EODPL to arrive at the 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). The Embassy group is among the largest commercial real estate developers in the country. EODPL is engaged in development of commercial, residential and retail projects. Some of its key projects include names like Embassy Tech Village, Embassy Knowledge Park in Bangalore and Embassy Splendid Tech Zone in Chennai amongst others. The group has business parks in locations such as Bangalore and Pune, with upcoming projects in Chennai and Trivandrum. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the Embassy Sponsor owns properties in the hospitality segment and is developing industrial parks and warehouses across India.

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 220 billion as on 31 March, 2021, 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. Acuité 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 March, 2021. 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 September, 2021. 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 19 percent till March 2021. EODPL has Rs. 90 Cr of receivables pending from customers for the sold flats. 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. Around 50 percent of the consideration was utilized towards repayment of unsecured loans and interest expenses, and the rest amounts was given as an Intercorporate 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. we believe 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 cyclical and regulatory risks impacting real estate industry**

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 along with the pandemic has mounted pressure on the industry resulting in lower sales. 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. As on FYE21, the company had Rs 40.68 Cr at 12 percent interest rate. Recently, the company has refinanced its existing debt and repayment of refinanced term loan commenced from Dec 2020. The demonstrated track record of refinancing its maturing obligations also exhibits the group's acceptance amongst lenders.

Rating Sensitivities

- 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

Outlook: Stable

Acuité 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	15.29	15.01
PAT	Rs. Cr.	(38.24)	(11.42)
PAT Margin	(percent)	(250.13)	(76.08)
Total Debt/Tangible Net Worth	Times	3.37	2.75
PBDIT/Interest	Times	0.09	(0.27)

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facility	Term	Amount (Rs. Cr)	Ratings/Outlook
04 Feb 2020	Term Loan	Long Term	700.00	ACUITE BBB-/ Stable (Assigned)

*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 Loan	19 Sep 2018	11.00%	19 Sep 2023	700.00	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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