



Press Release
Embassy One Developers Private Limited
May 19, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	700.00	ACUITE BB Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	700.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) to the Rs.700.00 Cr bank facilities of Embassy One Developers Private Limited (EODPL). Acuite has now removed its rating from 'Rating Watch with Developing Implications'. The outlook is 'Stable'.

Reason for Rating downgrade and removal from Rating Watch with Developing Implications

Acuite had placed the rating on watch primarily on account of EODPL's ongoing merger with Indiabulls Real Estate Limited (IBREL). NCLT approval was awaited for the merger. However, the Chandigarh NCLT vide its order dated 09.05.2023 has rejected the amalgamation plea of the Group. Further on the operational performance, EODPL has one ongoing project which stands 98% completed as on date and has not witnessed any incremental progress over the last 5 months. The project includes two tower, North and South Tower. The company is yet to receive Occupancy Certificate (OC) for the North tower. Further, the company has recorded tepid sales and collection traction on the project and relies on infusion of funds from promoters to service its debt obligations. The company is in discussion with prospective lenders to refinance this debt. The overall progress on the construction segment i.e with respect to receiving OC for the project and overall sales traction, reliance on promoters funds and refinancing of debt have not materialised as per Acuite expectation since the last review. The total outstanding debt on the project has reduced to Rs. 227 Cr as on March 31, 2023 from Rs. 379.08 Cr as on March 31, 2022, it was largely serviced from infusion of funds by promoters. In FY2023 the promoters has infused Rs.97 Cr in the project. However, the tepid sales traction, significant reliance on promoters to fund debt obligations and continued refinancing risks imparts a negative bias to the rating.

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.

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 98 percent of the project cost has already been incurred as on 31 March, 2023. The project has two towers – North and South. The South Tower is already complete and the Occupation Certificate (OC) has been received. The North Tower is also almost complete and final finishing is ongoing. 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 support from promoter:

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 38 percent till September 2022 vis-a-vis 19 percent in March 2021. EODPL has collected ~Rs. 105 Cr. since April 2021 from new sales and collection on already 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 support from promoters to manage the interest and the repayment obligations. The total repayment obligations stood at Rs. 395 Cr. for the period April 2021 - September 2022 out of which Rs. 105 Cr. has been serviced through collection on sales and rest through promoter contribution. The unsecured loans from promoters went up to Rs. 265 Cr. as on March 31, 2022 from Rs. 30 Cr. as on March 31, 2021. The subdued market scenario in the luxury 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. However, 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.

ESG Factors Relevant for Rating

Embassy Group is engaged in multiple ESG initiatives including supporting government schools in Bangalore, public spaces clean up in Bangalore, installation of segregated garbage bins in Bangalore CBD, transformation of 101 under fly-over pillars, among others. Additionally, all the projects undertaken by Embassy Group have IGBC Green Gold Certification or higher. Embassy group has an active engagement towards improvising education, sustainable infrastructure, community engagement and corporate connect. The group aims to facilitate students of Government Schools with a safe learning environment for skill development through holistic interventions in Education, Health and Infrastructure. It has supported more than 85 government schools through educational and infrastructure interventions, build around 10 new government schools amongst others. Embassy group drives positive change by providing infrastructure-based solutions with new frontline services for environmental sustainability and community healthcare, it promotes grassroots results to global problems in the communities it is a part of. Embassy group is a proud partner of TAICT's (The Anonymous Indian Charitable Trust) Ecogram Waste Management Project, which aims to catalyse communities to develop and implement strategic infrastructure for sustainable environmental management. It has completed several initiatives of public spaces clean-up, installation of segregated garbage, mobile cancer detection unit amongst others.

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

Material covenants

None

Liquidity Position Stretched

The liquidity of EODPL is stretched marked by the continued reliance on support from the promoters for funds. Further, the low sales and collection traction and the risks of refinancing of debt underline the stretched liquidity position of the company.

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. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position on account of lower than expected sales traction towards these projects which may further increase the dependence on refinancing of debt.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	57.16	15.29
PAT	Rs. Cr.	(99.71)	(39.16)
PAT Margin	(%)	(174.44)	(256.20)
Total Debt/Tangible Net Worth	Times	7.00	3.37
PBDIT/Interest	Times	(0.10)	0.08

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Oct 2022	Term Loan	Long Term	700.00	ACUITE BBB- (Ratings Under Watch)
06 Jul 2021	Term Loan	Long Term	700.00	ACUITE BBB- Stable (Reaffirmed)
04 Feb 2020	Term Loan	Long Term	700.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
PNB Housing Finance Limited	Not Applicable	Term Loan	19 Sep 2018	11.0	19 Sep 2023	Simple	700.00	ACUITE BB Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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