

Press Release

Embassy Property Developments Private Limited

March 24, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.2100.00 Cr.
Long Term Rating	Provisional PP-MLD ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**Provisional PP-MLD ACUITE BBB**' (read as **Provisional Principal Protected Market Linked Debentures ACUITE triple B**) on the Rs.2100.00 Cr Proposed Principal Protected Market Linked Non-Convertible Debentures of Embassy Property Developments Private Limited (EPDPL). The outlook is '**Stable**'.

The prefix 'PP-MLD' indicates that while the NCD is a principal-protected instrument, there are other non-credit risks associated with the instrument. The coupon/return on the instrument is not fixed and is linked to an external market linked variable which in this case is the yield on the 10 year Government of India Security (Gsec). This could result in volatility in the returns to the investors, the risks where of is not taken into account by the rating.

The rating on the Rs.2100.00 NCD is provisional and the final rating is subject to:

- Appointment of a SEBI registered debenture Trustee
- Receipt of the executed trust deed and its legal vetting by Acuité
- Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

The provisional rating is valid for 335 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 335 days, if such an action is deemed appropriate.

About the Company

Embassy Property Developments Private Limited (EPDPL) is a flagship company of Embassy Group, incorporated in 1996 by Mr. Jitendra Virwani. EPDPL along with its subsidiaries and SPVs is engaged in development of residential, commercial and hospitality properties. Moreover, EPDPL and Blackstone came together to create India's first Real Estate Investment Trust (REIT) in April, 2019.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Established presence of Embassy group in the market**

The group commenced operations in 1993 under the firm 'Virwani Builders'. Later on, the name and constitution was changed to Embassy Property Developments Private Limited in 1996. The Embassy group is one of the leading real estate developers and has presence of more than 25 years in the real estate industry. Over the years, the group has developed several projects spanning more than 55 million square feet across Indian and international markets including Bangalore, Chennai, Hyderabad, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group has specific focus and expertise in developing luxury housing and commercial real-estate. The group has extensive land bank of 1000+ acre across India. Since inception, the group has successfully completed number of commercial, residential and hospitality projects. The group has collaborated with several established real estate players such as, Blackstone and Four Seasons Hotels Limited, to execute projects through various SPVs. Some of the marquee commercial projects names are MKN Embassy TechZone (Malaysia), Embassy Tech Village and Embassy TechSquare in Bangalore. The residential and hospitality assets developed by the group includes Embassy Lake Terrace, Four Seasons Residential Project, Embassy Boulevard Club and Embassy Groove amongst others.

Embassy group, along with Blackstone, has formed the India's first Real Estate Investment Trust (REIT) by the name 'Embassy Office Parks REIT' in April, 2019 and the said REIT is listed on BSE and NSE. REIT is vehicles for owning and operating revenue generating real estate assets and distributing cash flows from them to the unit-holders. Embassy group holds 14.97 percent of REIT units and receives quarterly dividend.

Acuité believes that the group's established track record of successful project execution and brand presence will continue to support its business risk profile over near to medium term.

- **Diversified asset mix**

EPDPL develops residential, commercial and hospitality properties, which provides multiple and consistent cash flow streams. Currently, there are five on-going residential projects and one commercial project. The residential projects are at the advanced stage of the completion with 85 percent of the projects cost already been incurred as on 31 December, 2019. The booking velocity is also healthy at 72 percent, collectively. These five on-going projects are expected to be completed by August, 2020.

Moreover, EPDPL has four commercial assets of cumulative leasable area of 5.46 lakh square feet, and having 100 percent occupancy rate. This has enabled EPDPL to have consistent lease rentals to its cash flows. EPDPL also has one ongoing commercial project – Embassy Tech Zone (Phase I) in Chennai. Phase I consists of 6 blocks. Block 2 and Block 3 will be operational by March, 2020 and June, 2020, respectively. The receivables pending on the sold inventory, sale proceeds from the unsold inventory and consistent lease rentals from commercial properties provides near to medium term cash flow visibility.

Apart from it, EPDPL receives service income like, business consultancy fee, asset management fee and brokerage fee. EPDPL also derives cash flows from the sale of asset to REIT and quarterly dividend against 15 percent of REIT unit holding.

- **Access to stream of dividend on the REIT units**

EPDPL is under the process of raising a Principal Protected Market Linked Debenture (PP-MLD) of up to Rs.2100.00 crore against the pledge of 14.97 percent units holding of Embassy Office Park REITs. The proposed debentures would be serviced through dividend received (quarterly) on the REIT units. The entire dividend received on the REIT units is proposed to be transferred to an escrow account maintained with the lender which would provide a steady stream cash flow to service the repayment obligations, any surplus after servicing the scheduled payments is proposed to be utilized for making prepayments under the facility.

Weaknesses

- **High reliance on refinancing**

EPDPL's total debt consists of term loans and inter corporate deposit of Rs.7683.63 crore as on March 31, 2019 from banks and non-banking financial companies, and group companies. These term loans are for on-going residential and commercial projects and general corporate purpose. The repayment of the long term loans is high. Further, a proposed PP-MLD of up to Rs.2100.00 crore would assist EPDPL to refinance the existing debt.

The subdued market scenario in the real estate sector in Bangalore from 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, the company has successfully refinanced its existing debt obligations in past. Acuité believes that timeliness and adequacy of such refinancing measures resulting into easing of its liquidity position remains a key rating sensitivity factor.

- **Susceptibility to Real Estate Cyclical and Regulatory Risks**

EPDPL 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 EPDPL thereby impacting its operating capabilities.

Liquidity position: Adequate

The liquidity of EPDPL is adequate marked by the cash and bank balance of Rs.132.10 crore and investments in mutual funds and quoted & unquoted shares of the companies other than subsidiaries and SPVs of Rs.85.35 crore as on March 31, 2019. The debt outstanding from financial and non-banking financial institutions is high. EPDPL is going to raise Principal Protected Market Linked Debenture (PP-MLD) of up to Rs.2100.00 crore, which would provide liquidity cushion over medium

term. Further, the demonstrated track record of refinancing its maturing obligations also exhibits the EPDPL's strong refinancing abilities and acceptance amongst lenders.

Rating Sensitivity

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

Material covenants

None

Outlook: Stable

Acuite believes that EPDPL will maintain a 'Stable' outlook over medium term on account of established market position of Embassy group in the real estate industry and diversified cash flow streams. 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 ongoing 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.	599.52	385.34
PAT	Rs. Cr.	-448.65	-337.60
PAT Margin	(%)	-74.84	-87.61
Total Debt/Tangible Net Worth	Times	7.81	4.37
PBDIT/Interest	Times	0.38	0.22

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
Proposed Principal Protected Market Linked Debentures	Not Applicable	Not Applicable	Not Applicable	2100.00	Provisional PP-MLD ACUITE BBB / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Simranjeet Kaur Rating Analyst Tel: 022-49294052 simranjeet.kaur@acuiteratings.in	

About Acuité Ratings & Research:

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