

Press Release

Embassy Property Developments Private Limited

April 14, 2020

Rating Assigned



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.2100.00 Cr. |
| Facilities Rated | Rs.1355.00 Cr. |
| Long Term Rating | PP-MLD ACUITE BBB / Outlook: Stable (Converted from Provisional Rating to Final Rating) |
| Facilities Rated | Rs.745.00 Cr. |
| Long Term Rating | Provisional PP-MLD ACUITE BBB (Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuite has converted the provisional rating to final rating of long-term rating of '**PP-MLD ACUITE BBB**' (**read as Principal Protected Market Linked Debentures ACUITE triple B**) on the Rs.1355.00 Cr Principal Protected Market Linked Non-Convertible Debentures of Embassy Property Developments Private Limited (EPDPL). The outlook is '**Stable**'. The conversion of the rating from a provisional rating to a final rating reflects satisfactory completion of the documentation as required by Acuite.

Acuite has received the following documents:

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

Further, Acuite has withdrawn its rating of '**Provisional PP-MLD ACUITE BBB**' (**read as Provisional Principal Protected Market Linked Debentures ACUITE triple B**) on the Rs.745.00 Cr Principal Protected Market Linked Debentures of EPDPL at the request of issuer and in line with Acuite's policy on withdrawal of rating.

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.

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

Acuite 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.

Acuite 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 has raised a Principal Protected Market Linked Debenture (PP-MLD) of Rs.1355.00 crore against the pledge of 11.83 percent units holding of Embassy Office Park REITs. The debentures would be serviced through dividend received (quarterly) on the REIT units. The entire dividend received on the REIT units is 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 PP-MLD of Rs.1355.00 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. Acuite 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 Cyclicity 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 has raised Principal Protected Market Linked Debenture (PP-MLD) of Rs.1355.00 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)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---|-----------|------------------|---|
| 24-Mar-2020 | Proposed Principal Protected Market Linked Debentures | Long Term | 2100.00 | Provisional PP-MLD 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 |
|---|------------------|----------------|----------------|-----------------------------|---|
| Principal Protected Market Linked Debentures | Not Applicable | Not Applicable | Not Applicable | 1355.00 | PP-MLD ACUITE BBB / Stable (Assigned) |
| Proposed Principal Protected Market Linked Debentures | Not Applicable | Not Applicable | Not Applicable | 745.00 | Provisional PP-MLD ACUITE BBB (Withdrawn) |

Contacts

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

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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