

Press Release

Embassy Property Developments Private Limited

July 28, 2021

Rating Assigned, Ratings Reaffirmed



Total Instruments Rated*	Rs. 2,907.84 Cr.
Long Term Facility	Rs 750.00
Long Term Rating	Provisional PP-MLD ACUITE BBB-/ Stable (Assigned)
Long Term Facility	Rs. 2.84 Cr
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Long Term Facility	Rs. 1,355.00 Cr
Long Term Rating	PP MLD ACUITE BBB/Stable (Reaffirmed)
Long Term Facility	Rs. 800.00 Cr
Long Term Rating	PP MLD ACUITE BBB/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **'Provisional PP-MLD ACUITE BBB-'** (read as **Provisional Principal Protected Market Linked Debenture ACUITE Triple B Minus**) to the proposed issue of Rs. 750.00 Cr Principal Protected Market Linked Non-Convertible Debentures, reaffirmed its long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B Minus**) to the Rs.2.84 Cr Non-Convertible Debentures, reaffirmed its long-term rating of **'PP-MLD ACUITE BBB'** (read as **Principal Protected Market Linked Debentures ACUITE triple B**) to the Rs. 1,355.00 Cr Principal Protected Market Linked Non-Convertible Debentures and reaffirmed its long-term rating of **'PP-MLD ACUITE BBB'** (read as **Principal Protected Market Linked Debentures ACUITE triple B**) to the Rs. 800.00 Cr Principal Protected Market Linked Non-Convertible Debentures of Embassy Property Developments Private Limited (EPDPL). The outlook is **'Stable'**.

The rating on the Rs. 750.00 Cr NCD is provisional and the final rating is subject to:

- 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

About the Company

Embassy Property Developments Private Limited (EPDPL) was incorporated in 1996 and the flagship company of leading real estate Embassy Group, based out of Bangalore. EPDPL is engaged in development of commercial, residential and retail projects.

Embassy Group was incorporated in 1993 by Mr. Jitendra Virwani. The group is one of the leading real estate developer. 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

Acuite has considered the standalone business and financial risk profiles of EPDPL to arrive at

the rating.

Key Rating Drivers

Strengths

- **Established presence of Embassy group in the commercial real estate segment**

The Embassy group is among the largest commercial real estate developers in the country. EPDPL is engaged in development of commercial, residential and retail projects. 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.

- **Demonstrated Financial flexibility arising from EPDPL's investments, including Embassy REIT**

EPDPL, being the flagship company of the group, has significant financial flexibility resulting from its investments in the completed commercial real estate portfolio, including its stake in Embassy REIT providing recurring dividend income to EPDPL. In addition, the group sold some of the assets to pare its debt.

- **Support from group entities and adequate asset coverage**

The rating for the term loan also draws strength from the free cash flow generation from group entities, including the facility management services and common area management companies of the group, which are also the co-borrowers to some of the loans of the company. The asset coverage available against the proposed Rs 750.00 Cr Principal Protected Non-convertible debentures is more than 1.6 times which is robust.

- **Diversified asset mix and access to stream of dividends on the REIT units**

EPDPL develops residential, commercial and hospitality properties, which provides multiple and consistent cash flow streams. Currently, there are four on-going residential projects under construction, one completed and one commercial project. The residential projects are at the advanced stage of the completion with most projects cost already been incurred and OC has been received for all 5 except for tower 6-9 in Embassy Lake Terrace residential projects. Moreover, EPDPL has commercial assets which 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. The company has received Completion Certificate and handed over Block 2 and Block 3. 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 12.18 percent of REIT unit holding as 31 March 2021.

Weaknesses

- **Refinancing Risk**

EPDPL's total debt consisted of term loans and inter corporate deposit of Rs. 8,765.22 Cr as on FYE21 (Prov), from banks NBFCs, and group companies. 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 cyclicality and regulatory risks impacting real estate industry**

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 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 EPDPL, thereby impacting its operating capabilities.

Liquidity Position: Adequate

The group operates in real estate business, which to a large extent is illiquid and highly cyclical and it usually takes time monetize these assets. Existing debt of the group includes loans obtained for general corporate purpose and acquisition and are susceptible to refinancing risk. The company generated net cash accrual of Rs 2,354 Cr in FY21 (Prov). This was primarily on account of other income of which Rs 1,950 Cr was profit from sale of assets to REIT and Rs 1,472 Cr was from fair value gains on financial instruments. The unencumbered cash in hand with the company was Rs 328.31 Cr, the company also held liquid assets in form of shares and mutual funds of listed companies amounting to Rs 7.98 Cr. The group in the past has been able to demonstrate high financial flexibility and ability to borrow against the value of its investments in various commercial real estate assets and investments. Nevertheless, the company was unable to refinance some of its debt in March 2020 due to the ongoing pandemic. Acuite believe, the liquidity position of the group will stay as is considering the asset heavy business model and slow pace in picking up of residential luxury project sales.

Rating Sensitivities

- A significant increase in the scale of operations, through diversification
- An elongation of the working capital cycle
- Fall in the operating profitability and/or deterioration in the liquidity position
- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc.

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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	370.93	705.07
PAT	Rs. Cr.	2,321.54	(287.35)
PAT Margin	(percent)	625.87	(40.76)
Total Debt/Tangible Net Worth	Times	3.29	15.46
PBDIT/Interest	Times	2.80	0.79

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. Absence of any structured payment mechanism.
3. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BBB- / Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Jun-21	Non-Convertible Debentures	Long term	2.84	ACUITE BBB-/Stable (Assigned)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	600.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	200.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	275.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	1,080.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
27-Mar-21	Principal Protected Market Linked Non-Convertible Debentures	Long term	600.00	PP MLD ACUITE BBB/Stable (Converted from Provisional to final rating) (Assigned)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	200.00	PP MLD ACUITE BBB/Stable (Converted from Provisional to final rating) (Assigned)
24-Mar-21	Principal Protected Market Linked Non-Convertible Debentures	Long term	600.00	Provisional PP MLD ACUITE BBB/Stable (Assigned)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	200.00	Provisional PP MLD ACUITE BBB/Stable (Assigned)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	1,080.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
	Principal Protected Market Linked Non-Convertible Debentures	Long term	275.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
14-Apr-20	Principal Protected Market Linked Non-Convertible Debentures	Long term	1,355.00	PP MLD ACUITE BBB/Stable (Converted from Provisional to final rating)
	Proposed Principal Protected Market Linked Non-Convertible Debentures	Long term	745.00	Provisional PP-MLD ACUITE BBB (Withdrawn)
24-Mar-20	Principal Protected Market Linked Non-Convertible Debentures	Long term	2,100.00	Provisional PP MLD ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

ISI N	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
--	Proposed Principal Protected Market Linked	NA	12.00%	5 years	750.00	Provisional PP MLD ACUITE BBB-/Stable

	Non-Convertible Debentures					(Assigned)
INE003L07044	Non-Convertible Debentures	17 Dec 2014	12.00%	26 Dec 2021	2.84	ACUITE BBB-/Stable (Reaffirmed)
INE003L07150	Principal Protected Market Linked Non-Convertible Debentures	27 March 2021	Up to 12.00%	28 April 2023	600.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
INE003L07168	Principal Protected Market Linked Non-Convertible Debentures	27 March 2021	Up to 12.25%	28 April 2023	200.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
INE003L07069	Principal Protected Market Linked Non-Convertible Debentures	03 April 2020	15.00%	02 March 2030	275.00	PP MLD ACUITE BBB/Stable (Reaffirmed)
INE003L07077	Principal Protected Market Linked Non-Convertible Debentures	03 April 2020	14.25%	02 March 2030	1,080.00	PP MLD ACUITE BBB/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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