

## Press Release

### Embassy Property Developments Private Limited

August 02, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Non Convertible Debentures (NCD)</b>	2.84	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative	-
<b>Non Convertible Debentures (NCD)</b>	2155.00	PP-MLD   ACUITE BBB   Negative   Reaffirmed   Stable to Negative	-
<b>Non Convertible Debentures (NCD)</b>	750.00	PP-MLD   ACUITE BBB-   Negative   Reaffirmed   Stable to Negative	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	2907.84	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its long term rating of **'PP-MLD ACUITE BBB' (read as Principal Protected Market Linked Debenture ACUITE Triple B)** on the Rs.2,155.00 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 Minus)** to the Rs.750.00 Cr Principal Protected Market Linked Non-Convertible Debentures of Embassy Property Developments private Limited (EPDPL). The Outlook has been revised to 'Negative'.

The outlook revision takes cognizance of the high debt levels in the entity as well as in the group level and the uncertainty on the cash flow timelines from sale of assets to Embassy REIT or to strategic investors, that will be needed to service the non-NCD debt. The outlook revision also factors in the lower-than- estimated distributions from REIT units secured against the rated NCDs which shall lead to lower repayments than envisaged. to the rating remains constrained by high refinancing risks given the mix of large amount of NCDs and construction finance outstanding as on June 30, 2022. The total debt outstanding for EPDPL as on June 30, 2022 was approximately Rs.4,137.25 Cr (includes the accumulated interest on NCDs) against the sanctioned debt of Rs.4,418.10 Cr.

The rating reaffirmation continues to factor in the established presence of the Embassy Group in Bangalore real estate market, demonstrated financial flexibility arising from EPDPL's investments particularly in Embassy REIT, support from group entities and adequate asset coverage. The ratings also take into account EPDPL's susceptibility to cyclicity and regulatory risks impacting the real estate industry.

### About the Company

Embassy Property Developments Private Limited (EPDPL) was incorporated in 1996 and the  
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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**

Acuité 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 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 entire Principal Protected Non - convertible debentures is more than 1.5 times.

#### **Weaknesses**

##### **Refinancing Risk**

EPDPL's total debt consisted of construction finance, NCDs, term loans and inter corporate deposit from banks NBFCs, and group companies. The subdued market scenario in the real estate sector in Bangalore from past two years ending FY21 had 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 cyclical 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.

### **ESG Factors Relevant for Rating**

EPDPL undertakes multiple CSR activities and has an existing CSR policy. In FY2022, the company has supported for implementing holistic health and hygiene program with focus on preventive healthcare, nutrition and sanitation at government schools in Bangalore. Further, 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 grassroot 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**

- Further deterioration in the liquidity position by availing additional debt
- Lower than anticipated distribution per units from Embassy REIT
- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc

### **Material covenants**

None

### **Liquidity: Adequate**

The group operates in real estate business, which to a large extent is illiquid and highly cyclical and it usually takes time to monetize these assets. Existing debt of the group includes loans obtained for general corporate purpose and acquisition and are susceptible to refinancing risk. 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. Acuité believes, 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.

### **Outlook: Negative**

Acuité believes that EPDPL will continue to benefit over the medium term due to its

experienced management and established track record. The outlook may be revised to 'Stable', in case of moderate leverage levels, timely ceding of planned assets to REIT, timely monetisation of assets at Subsidiary level to meet the upcoming obligations. Conversely, the outlook may be revised to 'Negative' in case EPDPL raises further debt leading to further deleveraging leading or any delay in monetisation of assets leading to impact on the company's liquidity.

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	310.42	207.59
PAT	Rs. Cr.	(89.11)	3597.42
PAT Margin	(%)	(28.71)	1732.98
Total Debt/Tangible Net Worth	Times	1.70	1.83
PBDIT/Interest	Times	0.93	4.85

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

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>
- Real Estate Investment Trust (REIT): <https://www.acuite.in/view-rating-criteria-81.htm>

## Note on complexity levels of the rated instrument

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

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Aug 2021	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB-   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	750.00	ACUITE PP-MLD BBB-   Stable (Assigned)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
28 Jul	Non Convertible Debentures	Long Term	2.84	ACUITE BBB-   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	750.00	ACUITE PP-MLD BBB-   Stable (Assigned)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)

2021	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	750.00	ACUITE Provisional PP-MLD BBB-   Stable (Assigned)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB-   Stable (Reaffirmed)
30 Jun 2021	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB-   Stable (Assigned)
27 Mar 2021	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB   Stable (Assigned)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB   Stable (Assigned)
	Non Convertible Debentures	Long Term	200.00	ACUITE Provisional PP-MLD BBB   Stable (Assigned)
	Non Convertible Debentures	Long Term		ACUITE PP-MLD BBB   Stable (Reaffirmed)
24 Mar 2021	Non Convertible Debentures	Long Term	1080.00	
	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	600.00	ACUITE Provisional PP-MLD BBB   Stable (Assigned)
12 Jun 2020	Proposed Non Convertible Debentures	Long Term	2100.00	ACUITE Provisional PP-MLD BBB   Stable (Assigned)
14 Apr 2020	Non Convertible Debentures	Long Term	1355.00	ACUITE BBB   Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	745.00	ACUITE BBB (Withdrawn)
24 Mar 2020		Long Term	2100.00	Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE003L07069	Non-Covertible Debentures (NCD)	04-03-2020	15	03-02-2030	275.00	PP-MLD   ACUITE BBB   Negative   Reaffirmed   Stable to Negative
Not Applicable	INE003L07077	Non-Covertible Debentures (NCD)	04-03-2020	14.25	03-02-2030	1080.00	PP-MLD   ACUITE BBB   Negative   Reaffirmed   Stable to Negative
Not Applicable	INE003L07150	Non-Covertible Debentures (NCD)	26-03-2021	13.75	28-04-2023	600.00	PP-MLD   ACUITE BBB   Negative   Reaffirmed   Stable to Negative
Not Applicable	INE003L07168	Non-Covertible Debentures (NCD)	26-03-2021	13.75	28-04-2023	200.00	PP-MLD   ACUITE BBB   Negative   Reaffirmed   Stable to Negative
Not Applicable	INE003L07044	Non-Covertible Debentures (NCD)	17-12-2014	12	26-12-2021	2.84	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative
Not Applicable	INE003L07184	Non-Covertible Debentures (NCD)	30-07-2021	12.00	30-07-2026	750.00	PP-MLD   ACUITE BBB-   Negative   Reaffirmed   Stable to Negative



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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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