

Press Release

Embassy Property Developments Private Limited

November 30, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	600.00	Provisional PP-MLD ACUITE C Assigned	-
Total Outstanding Quantum (Rs. Cr)	600.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**PROVISIONAL PP-MLD ACUITE C**' (read as **Provisional Principal Protected Market Linked Debenture ACUITE C**) on the Rs.600.00 Cr Proposed Principal Protected Market Linked Non-Convertible Debentures (Proposed NCDs) of Embassy Property Developments Pvt Ltd (EPDPL).

The rating on the Rs.600.00 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

The rating is an outcome of delays in the Non-NCD debt - construction finance (CF)/lease rental discounting (LRD) loans, established through the CRIF High mark report and on the basis of verbal feedback from one of the lending institutions. To substantiate the default, Acuite had sought the bank statements and sanction letters from EPDPL, which have not been made available to it as on the date of this report. The delay has been reported in servicing a construction finance loan amounting to Rs.82 Cr (outstanding as on October 31, 2022) on account of procedural aspects as well as delays in regulatory approvals for transfer of CF loans to Embassy REIT. Acuite, also understands there are delays in servicing of interest obligations in other CF/LRD loans. The delays reflect the on-going liquidity issues.

The rating takes cognizance of the dilution of REIT units secured against the existing NCDs and usage of the same as security against the proposed NCDs (Rs.340 Cr), high debt levels in the entity as well as at the group level and the uncertainty on the cash flow timelines from monetization/sale of assets to Embassy REIT. The rating also factors in the lower than-estimated distributions from REIT units secured against the rated NCDs which shall lead to lower principal repayments than previously envisaged. 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.

About the Company

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

High 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 along with high refinancing risk associated with existing NCDs post the change in security structure for the proposed NCDs.

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 FY22, 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

Not Applicable

Material covenants

None

Liquidity: Stretched

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 group in the past has been able to demonstrate moderate 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.

Outlook

Not Applicable

Other Factors affecting Rating

None

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

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. 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 C

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.

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

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
11 Nov 2022	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD C (Downgraded from ACUITE PP-MLD BB+ Stable)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD C (Downgraded from ACUITE PP-MLD BB+ Stable)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD C (Downgraded from ACUITE PP-MLD BB+ Stable)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD C (Downgraded from ACUITE PP-MLD BB+ Stable)
	Non Convertible Debentures	Long Term	750.00	ACUITE PP-MLD C (Downgraded from ACUITE PP-MLD BB+ Stable)
06 Sep 2022	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BB+ Stable (Downgraded from ACUITE PP-MLD BBB Negative)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB- (Withdrawn)
	Non Convertible Debentures	Long Term	750.00	ACUITE PP-MLD BB+ Stable (Downgraded from ACUITE PP-MLD BBB Negative)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BB+ Stable (Downgraded from ACUITE PP-MLD BBB Negative)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BB+ Stable (Downgraded from ACUITE PP-MLD BBB Negative)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BB+ Stable (Downgraded from ACUITE PP-MLD BBB Negative)
02 Aug 2022	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	750.00	ACUITE PP-MLD BBB- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB- Negative (Reaffirmed)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB Negative (Reaffirmed)
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	750.00	ACUITE PP-MLD BBB- Stable (Assigned)
	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	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)

2021				
	Debentures	Term	600.00	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 Provisional PP-MLD BBB- Stable (Assigned)
	Non Convertible Debentures	Long Term	2.84	ACUITE BBB- Stable (Assigned)
	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB Stable (Reaffirmed)
30 Jun 2021	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)
27 Mar 2021	Non Convertible Debentures	Long Term	600.00	ACUITE PP-MLD BBB Stable (Assigned)
	Non Convertible Debentures	Long Term	200.00	ACUITE PP-MLD BBB Stable (Assigned)
	Non Convertible Debentures	Long Term	200.00	ACUITE Provisional PP-MLD BBB Stable (Assigned)
24 Mar 2021	Non Convertible Debentures	Long Term	1080.00	ACUITE PP-MLD BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	275.00	ACUITE PP-MLD BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	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	Proposed Non Convertible Debentures	Long Term	2100.00	ACUITE Provisional PP-MLD 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
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	180.00	Provisional PP-MLD ACUITE C Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	420.00	Provisional PP-MLD ACUITE C Assigned

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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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