

Press Release

Nam Estates Private Limited

July 12, 2021

Rating Assigned



Total Instruments Rated*	Rs. 1,000.00 Cr.
Long Term Rating	Provisional ACUITE BBB- (CE)/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**Provisional ACUITE BBB- (CE)**' (read as **Provisional ACUITE triple B Minus Credit Enhancement**) to the Rs. 1000.00 Cr Proposed Non-Convertible Debentures of Nam Estates Private Limited (NEPL). The outlook is 'Stable'.

The rating on the Rs. 1,000.00 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 executed guarantee document
- Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

Standalone Rating of rated entity:

ACUITE BB/ Stable

About the Company

Nam Estates Private Limited (NEPL) is a group company of Embassy Group. The company was established in 1995 and is based out of Bangalore. the company holds the Embassy Springs project in its books.

Embassy Group was incorporated in 1993 by Mr. Jitendra Virwani. The group is one of the leading real estate developers. 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 NEPL to arrive at the standalone rating. The final rating is based on the unconditional and irrevocable corporate guarantee extended by Embassy Property Developments Private Limited to the lenders of NEPL.

Assessment of Adequacy of CE Structure

Acuite has carried out the assessment of the adequacy of the credit enhancement structure and has found the structure adequate under various stress scenarios.

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 and is developing industrial parks and warehouses across India.

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

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. In the proposed NCD issuance, NEPL plans to raise Rs 1,000.00 Cr which will be repaid from receivables obtained from certain secured assets over a time period of 60 months.

- **Cash flow support from group entities**

NEPL is also likely to draw benefit from the free cash flow generation from other 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.

- **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 14.97 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 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.

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 believes, the liquidity position of the group is likely to remain adequate over the medium term despite the 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 and NEPL 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

Guarantor: EPDPL

	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

Standalone: NEPL

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	59.40	43.62
PAT	Rs. Cr.	(55.57)	(16.92)
PAT Margin	(percent)	(93.55)	(38.80)
Total Debt/Tangible Net Worth	Times	(1.81)	(1.82)
PBDIT/Interest	Times	0.07	(1.57)

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 support from the group entity in case of any exigency.
3. Absence of any structured payment mechanism.
4. 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 BB / 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>
- Financial Ratios And Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Credit Enhancement - <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Not applicable

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
--	Proposed Non-Convertible Debentures	NA	19.00%	5 years	1,000.00	Provisional ACUITE BBB-/Stable (CE) (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research 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 8,783 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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