

Press Release

Nam Estates Private Limited

September 23, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	1000.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) on the Rs.1,000 Cr Non-convertible debentures (NCD) of Nam Estates Private Limited (NEPL). The Outlook is '**Stable**'.

The rating reaffirmation continues to be supported by established presence of Embassy group in the commercial real estate segment and cashflow support from group entities. The ratings are constrained by moderate demand risk at NEPL level marked by slower-than-expected collections from the on-going projects despite the construction being nearly complete, highly leveraged capital structure, refinancing risk at group level and susceptibility to cyclical and regulatory risks impacting real estate industry.

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

To arrive at the rating, Acuite has considered the standalone business and financial risk

profiles of NEPL and also factored in the support from Embassy Property development Pvt Ltd (EPDPL) by the way of unconditional and irrevocable guarantee (the guarantee, however, is set to lapse at the time of merger of NEPL with India Bulls Real estate Limited (IBREL)). The analytical approach was revised from a Credit Enhancement (CE) to a standalone rating along with an implicit notch up for the support from the Embassy Group. This was done to bring the analytical approach in line with Acuité's revised rating criteria w.r.t. credit enhancements.

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.

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.

Weaknesses

Highly leveraged debt and refinancing Risk

NEPL's total debt consisted of construction finance, NCDs, term loans and inter corporate deposits. 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 and the group has successfully refinanced its existing debt obligations in past. NEPL has total debt of ~Rs.3,250 Cr as on June 30, 2022. Acuité believes that timeliness and adequacy of such refinancing measures resulting into easing of its liquidity position remains a key rating sensitivity factor.

Moderate demand risk

NEPL has 5 on-going projects in Bengaluru, karnataka; around 65-67 percent of units and area has been booked as on June 30, 2022. Construction is nearly 95-98 percent completed. Around 27-30 percent of customer advances have been received against the sold inventory as on June 30, 2022 which entails moderate demand risk.

Susceptibility to cyclical and regulatory risks impacting real estate industry

NEPL 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 NEPL, thereby impacting its operating capabilities.

ESG Factors Relevant for Rating

NEPL and Embassy group undertakes multiple CSR activities and has an existing CSR policy. In FY22, the group 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 grassroots results to global problems in the communities it is a part of. Embassy group is a proud partner of TALCT'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

- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales, etc.
- Further deterioration in the liquidity position by availing additional debt.
- Timely completion of construction or timely realization of customer advances pending from sold inventory.
- Timely sale of the unsold inventory and realization of its customer advances.
- Sharp decline in cash flow, by slackened salability of project or further delays in project execution leading to high customer risk and cash flow mismatch

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 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. Acuité 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.

Outlook: Stable

Acuité believes that NEPL will maintain a 'Stable' outlook over medium term on account of established market position of Embassy group in the real estate industry. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	396.62	59.15
PAT	Rs. Cr.	(609.46)	(48.71)
PAT Margin	(%)	(153.66)	(82.35)
Total Debt/Tangible Net Worth	Times	13.90	(1.78)
PBDIT/Interest	Times	(0.14)	0.33

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-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.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
26 Jul 2022	Non Convertible Debentures	Long Term	1000.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
26 Jul 2021	Non Convertible Debentures	Long Term	1000.00	ACUITE BBB- (CE) Stable (Assigned)
12 Jul 2021	Proposed Non Convertible Debentures	Long Term	1000.00	ACUITE Provisional BBB- (CE) 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	Not Applicable	Non-Convertible Debentures (NCD)	28-07-2021	19.0	28-07-2026	1000.00	ACUITE BB+ Stable Reaffirmed

ISIN: INE934T07027

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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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