



Press Release
Nam Estates Private Limited
May 19, 2023
Rating Downgraded

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

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**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**'.

Reason for Rating Downgrade

The rating downgrade factors continued deterioration in credit risk profile of Embassy Group and particularly its flagship entity Embassy Property Development Pvt Ltd (EPDPL) (Acuite PP-MLD B+/Stable). Acuite had previously factored support from the flagship entity EPDPL towards the borrowings of NEPL, with continued deterioration in the credit risk profile and stretched liquidity profile of EPDPL the support now remains limited.

The rating also factors delays in receipt of receivables from the sold units. During the last 12 months ended March 31, 2023 NEPL has sold 114 units valuing Rs. 658 Cr and collected Rs. 637 Cr during this period (including collections made from already sold 810 units). The company has completed construction of all its projects, however it is yet to collect Rs. 607 Cr from its sold units. The unsold inventory of the project stood at Rs. 1358 Cr as on March 31, 2023. The company has utilised the funds collected to partly prepay its existing debt on the projects, however, the slow paced collection renders a negative bias to the rating. Going forward, NEPL's ability to ensure faster collection will be a key rating monitorable.

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.

About the Group

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. The implicit support derived from Embassy Property Development Pvt Ltd (EPDPL) by the way of unconditional and irrevocable guarantee towards NEPL's debt has been withdrawn on account of deterioration in the overall credit rating profile of EPDPL.

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.

Weaknesses

Slow pace of collections from customers

As on date, there are four projects being executed under NEPL i.e. Embassy Lake Terrace, Embassy Grove, Embassy Boulevard and Embassy Springs. The construction of all these projects is completed and occupancy certificate has been received. Out of the total 1358 units in the project, NEPL has sold 924 units till March 31, 2023. Out of which 114 units were sold in FY2023 valuing Rs. 658 Cr. As on March 31, 2023 the receivables from sold units stands at Rs. 607 Cr. The company has completed construction of all the projects, however, the advances stand receivable from these units. Further, the total unsold inventory stand at Rs. 1389 Cr i.e. ~18 percent of the total project sales value of ~Rs. 7619 Cr. Thus, exposing NEPL to demand risk for projects.

Susceptibility to cyclicity 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 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

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 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

- > 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 Position

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. Further, with the moderate sales traction recorded in FY2023 albeit modest collections in its ongoing projects Acuite believes, the liquidity position of the group is likely to remain adequate over the medium term.

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. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position on account of 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 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	396.54	226.20
PAT	Rs. Cr.	(609.47)	(361.09)
PAT Margin	(%)	(153.70)	(159.64)
Total Debt/Tangible Net Worth	Times	13.90	16.32
PBDIT/Interest	Times	(0.13)	(0.03)

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

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
23 Sep 2022	Non Convertible Debentures	Long Term	1000.00	ACUITE BB+ Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE934T07027	Non-Convertible Debentures (NCD)	30 Jul 2021	6.00	30 Jul 2026	Simple	1000.00	ACUITE BB Stable Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Salony Goradia Senior Manager-Rating Operations Tel: 022-49294065 salony.goradia@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.