

## Press Release

Mac Charles India Limited

May 31, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	300.00	ACUITE BBB-   Stable   Reaffirmed	-
Non Convertible Debentures (NCD)	320.00	Provisional   ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	620.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) on the Rs. 300.00 Cr of Non-Convertible Debentures (NCDs) of MAC Charles India Limited (MCIL). Acuite has assigned '**Provisional ACUITE BBB-**' (read as **Provisional ACUITE Triple B Minus**) on the Rs.320.00 Cr proposed Non-Convertible Debentures (NCDs) of MAC Charles India Limited (MCIL). The outlook is '**Stable**'.

**The rating on the Rs.320.00 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

### Rationale for the Rating Assigned & Reaffirmation

The rating assigned and reaffirmed takes into account the established presence of Embassy group in the commercial real estate segment, prime locations of the projects, adequate asset coverage for Embassy Zenith and corporate guarantee from Embassy Property Developments Private Limited and Embassy construction Private Limited and moderate financial risk profile. The ratings are constrained by susceptibility to cyclical and regulatory risks impacting real estate industry and high project risks associated with the on-going projects.

### About the Company

Mac Charles (India) Limited (MCIL) is in the business of real estate development and wind power generation. The company is incorporated in 1979 and based out of Bangalore and is promoted by Embassy Group which holds 73.41 percent of the shares of MCIL through Embassy Property Developments Private Limited. The company owns commercial real estate assets in Bangalore, Kerala and 5 wind power generation units in Bellary. Currently, the Company is redeveloping the erstwhile Le Meriden Hotel site in CBD Bangalore into a landmark A-Grade commercial office building under the project named – Embassy Zenith. MCIL, has recently initiated another project under its 100 percent wholly owned subsidiary

named 'Embassy Hub projects Private Limited' to acquire land parcels (a mix of outright acquisition and JDA) followed by construction of commercial space for leasing. The Company has divested its stake in one of its 100 percent wholly owned subsidiary - Airport Golfview Hotels & Suites Private Limited which operated Airport Golf View Hotel in Cochin.

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 as well. 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 MCIL to arrive at the credit rating.

## Key Rating Drivers

### Strengths

- **Established presence of Embassy group in the commercial real estate segment**

Mac Charles (India) Limited (MCIL) is in the business of real estate development and wind power generation. The company is promoted by Embassy Group which holds 73.41 percent of the shares of MCIL through Embassy Property Developments Private Limited. 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. Acuite believes, with the expertise of the group in handling similar projects in the past will help the company in on time completion of project without any cost overruns.

- **Premium location and amenities of both the projects**

Embassy Zenith project is located at Sankey Road in heart of Bangalore city overlooking the golf course on the erstwhile Le Meriden Hotel site in CBD Bangalore. The development shall comprise of 2B+G+27 building with 2B+G+6 levels of MLCP and 21 office floors with leasable area of 5,61,508 sq ft. The project is expected to fetch monthly rentals of Rs.220 per square foot once completed. Existing rentals in the area is in the range of Rs.180 per square foot per month in the locality. Embassy Hub project is too located in North Bangalore, a few kilometers away from the airport. Both the developments are proposed to be an ultra-premium state of the art development with superlative specifications and high-end infrastructure. Acuite believes, the premium nature of the project and its prime location will benefit the company in realizing the value of the projects.

- **Adequate asset coverage for Embassy Zenith and guarantee from EPDPL**

The company has raised Rs.300 Cr and another Rs.300 Cr in form of NCDs for the construction of Embassy Zenith. Additionally, it plans to raise Rs.320 Cr of NCDs for the new project – Embassy Hub. The asset coverage available against the non-convertible debentures is more than 1.5 times which is robust. Further to this, EPDPL has also provided a corporate guarantee for the same (additional, corporate guarantee from Embassy Construction Private limited in case of Embassy Hub Project).

### • **Moderate financial risk profile**

MCIL's financial risk profile was moderate as observed from its stable net worth, strong capital structure, and modest coverage indicators. The net worth was Rs.291.14 Cr as on 31 March 2021 as compared to Rs.289.97 Cr as on 31 March 2020, improving marginally due to accretion of profits to reserves. The capital structure was strong with gearing in the range of 0.39 times to 0.41 times and total outside liabilities to net worth in the range of 0.47 times to 0.52 times over the past three years ended FY21. The capital structure is expected to deteriorate marginally on account of the debt funded project. The coverage indicators were modest with DSCR at 1.18 times and interest coverage of 1.47 times in FY21. Acuite believes, the financial risk profile of the company is expected to stay moderate over medium and the same is expected to improve post monetization of the project.

### **Weaknesses**

#### • **Susceptibility to cyclical and regulatory risks impacting real estate industry**

Embassy Group and the project 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, unleased commercial spaces 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 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 thereby impacting its operating capabilities.

#### • **High Project Risk**

The company has appointed EPDPL as the turnkey contractors for the project – Embassy Zenith and EPDPL has considerable experience in handling similar projects. EPDPL also has experience in finding tenants for similar projects thereby mitigating offtake risk to an extent. Embassy Zenith has achieved ~22 percent of its financial progress as on April 30, 2022 whereas Embassy Hub projects is at very nascent stage wherein the land acquisition is still under progress.

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

MCIL 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

- Any delay in project construction resulting in cost overruns
- Higher-than-expected reliance on debt in future
- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc.

## Material covenants

None

## Liquidity: Adequate

The liquidity position of the company was adequate as observed from sufficient net cash accruals exceeding the loan repayments for the company, funding tied up to the project and group's ability to refinance debt when required. The Embassy Zenith project cost is Rs.658.00 Cr for which the company is raising Rs.600.00 Cr NCD in two tranches of Rs 300.00 Cr each and Rs 50.00 Cr through equity from promoters. The redemption of the NCD can be done as one single repayment or after lock in period with no fixed schedule giving the company flexibility to arrange funds for the repayment. Acuite believes, considering the experience of MCIL and EPDPL in executing similar projects, chances of cost overruns or liquidity crunches are slim in the medium term.

## Outlook: Stable

Acuite believes that MCIL will maintain a 'Stable' outlook over medium term on account of established market position of Embassy group in the real estate industry and nature of project. The outlook may be revised to 'Positive' in case the company generates higher than expected cash flows 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, which may further increase the dependence on refinancing of debt.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	8.63	11.32
PAT	Rs. Cr.	1.07	(12.57)
PAT Margin	(%)	12.37	(111.04)
Total Debt/Tangible Net Worth	Times	0.41	0.41
PBDIT/Interest	Times	1.47	0.17

## 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. 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 BBB- / 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.

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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>

#### 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 2021	Non Convertible Debentures	Long Term	300.00	ACUITE BBB-   Stable (Assigned)
15 Jul 2021	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE Provisional BBB-   Stable (Assigned)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Not Applicable	INE435D07011	Non-Convertible Debentures (NCD)	22-07-2021	16.00	23-07-2025	300.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	INE435D07011	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	320.00	Provisional   ACUITE BBB-   Stable   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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