

Press Release

Embassy Construction Private Limited

August 20, 2021

Rating Assigned



Total Instruments Rated*	Rs.185.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB- (read as ACUITE Triple B Minus)**' to the Rs. 185.00 Cr bank facilities of Embassy Construction Private Limited (ECPL). The outlook is '**Stable**'.

The ratings assigned reflects established presence of Embassy Group in the commercial real estate segment, healthy revenue visibility supported by lease agreements with strong counterparty. These rating strengths are partly offset by susceptibility to cyclical, regulatory risk and execution risk associated with its under-construction projects.

About the Company

Embassy Construction Private Limited (ECPL), incorporated in 1988 and based out of Bangalore, is into construction and development of Real Estate Projects. ECPL is part of Embassy Group and a subsidiary of JV Holding Private Limited. ECPL is constructing and developing a commercial business park at Venkata Village, Yelahanka, Hobli Bangalore (North Bangalore) under the name of Embassy Business Hub. The Company has aggregated 15 acres and 5 guntas of land under JDA out of the total requirement of ~61 acres. The development for first 4 acres and 7 guntas land is already pre-leased to Philips India Limited.

About the Group

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

Acuite has considered the standalone business and financial risk profiles of ECPL to arrive at the rating. The rating also factors funding support from the group to shore up its liquidity requirements in the event

Key Rating Drivers

Strengths

• Established presence of Embassy group in the commercial real estate segment

ECPL is into construction and development of Real Estate Projects. ECPL is part of Embassy Group and a subsidiary of JV Holding Private Limited. ECPL is developing a build to suit commercial office space for Philips India Limited on land measuring 4 acres and 7 guntas in Embassy Business Hub. The project is an under-construction commercial development having configuration of 3B+G+13 upper floors with a total built-up area of around 9.8 lac sqft and leasable area of 6.6 lac sqft. ECPL's share in the JDA is 60%.

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.

• **Adequate asset coverage and Agreement to Lease from Philips India Limited:**

The company maintains adequate asset coverage for the facility which is more than 1.5 times the loan outstanding which is robust. The company has already entered into an Agreement to Lease with Philips India Limited (PIL) for the project Acuité believes, having a strong counterparty already signed in to occupy the building under construction to favorably impact the credit profile of the company.

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.

• **Project Risk**

Embassy group has considerable experience in handling similar projects. The group has been in the commercial real estate business for more than 2 decades and have technical expertise in handling multiple complex projects at same time and executing the same without cost overruns. Acuité believes, any significant delay in the same is likely to impact the financial risk profile of the company.

Liquidity Position: Adequate

The company is basically a project execution company and does not have any external debt and any revenue from operations in the past. The company generate negative net cash accruals over past 3 years with no debt repayments tied to the same. Any capital that is coming into the company is through intercorporate deposits or loans from related parties or group entities. Existing borrowings in the books of ECPL are from associate companies in from of ICDs and loans from related parties.

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 high financial flexibility and ability to borrow against the value of its investments in various commercial real estate assets and investments. Nevertheless, the group was unable to refinance some of its debt in March 2020 due to the ongoing pandemic which was subsequently cleared. Acuité believes, the liquidity position of the group will stay as is considering the asset heavy business model and slow pace in picking up of residential and commercial real estate projects.

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

Acuité believes that ECPL 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.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(1.50)	(0.08)
PAT Margin	(percent)	NA	NA
Total Debt/Tangible Net Worth	Times	(63.82)	47.78
PBDIT/Interest	Times	NA	NA

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not rated in the past.

*Annexure – Details of instruments rated

Bank	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
IndusInd Bank Ltd	Term Loan	10 March 2021	1 Year MCLR+1.4% 10% presently	03 Feb 2026	185.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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