

## Press Release

### Embassy Construction Private Limited

August 20, 2021



### Rating Assigned

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

\* Refer Annexure for details

### Rating Rationale

Acuité 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 Venkatala 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

Acuité 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 form 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)

#### Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Hariprasad J Senior Analyst - Rating Operations Tel: 022-49294046 <a href="mailto:Hariprasad.j@acuite.in">Hariprasad.j@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

**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 8,830 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.

**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. Acuité ratings 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. Acuité ratings 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité, Acuité's ratingscale and its definitions.