

Press Release

Embassy Construction Private Limited

November 09, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	185.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	185.00	-	-
Total Withdrawn Quantum (Rs.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**) to the Rs. 185.00 Cr bank facilities of Embassy Construction Private Limited (ECPL). The outlook is '**Stable**'.

Rationale for the rating

The ratings reaffirmation continues to reflect established presence of Embassy Group in the commercial real estate segment, adequate 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

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

Embassy Construction Private Limited (ECPL), incorporated in 1988, 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 admeasuring ~4 acres 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 ~9.8 lac sqft and leasable area of 6.0 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. We believe, 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.

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 quantum which is robust. The company has already entered into an Agreement to Lease with Philips India Limited (PIL) for the project at a rate of Rs 57 per SqFt per month for a lock in period of 5 years with 15% escalation every 3 years. Acuite 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. Acuite believes, any significant delay in the same will have detrimental impact on the credit profile of the company.

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.
- Timely ceding of asset to Embassy REIT platform

Material covenants

- Minimum security cover of 1.5x
- D/E to be maintained in the ratio of 65:35; any cost overrun to be funded through additional equity from promoters

Liquidity: 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.

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.

Existing borrowings in the books of ECPL are from associate companies in from of ICDs. The company plans to either take LRD facility for which IndusInd Bank or cede the assets to REIT post completion of the project to repay the construction finance loan.

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.

Other Factors affecting Rating None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(6.75)	(1.48)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	(37.68)	(65.41)
PBDIT/Interest	Times	(0.13)	0.00

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

None

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>
- 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
20 Aug 2021	Term Loan	Long Term	185.00	ACUITE BBB- 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
Indusind Bank Ltd	Not Applicable	Term Loan	Mar 10 2021 12:00AM	10	Dec 31 2025 12:00AM	Simple	185.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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