Press Release

Mac Charles India Limited

June 29, 2022

Rating Assigned

Total Instruments Rated*	Rs. 300.00 Cr.
Long Term Rating	Provisional ACUITE BBB-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Erratum: In the original PR dated July 15, 2021, the 'Provisional' rating on the NCDs were to be converted into 'Final' subject to fulfillment of three conditions; one of them being receipt of 'Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and condition'. The same has now been corrected in this version as 'Receipt of the final term sheet and declaration from trustee to monitor compliance with all the terms and conditions and take all necessary actions in a timely manner throughout the life of the debentures'.

Rating Rationale

Acuité has assigned its long-term rating of **'Provisional ACUITE BBB-' (read as Provisional ACUITE triple B Minus)** to the Rs. 300.00 Cr Proposed Non-Convertible Debentures of Mac Charles (India) Limited (MCIL). The outlook is **'Stable'**.

The rating on the Rs. 300.00 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 declaration from trustee to monitor compliance with all the terms and conditions and take all necessary actions in a timely manner throughout the life of the debentures.

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% 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. The Company continues to operate the Airport Golf View Hotel in Cochin through its subsidiary.

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% 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 the project**

  The 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 development is proposed to be an ultra-premium state of the art development with superlative specifications and high-end infrastructure and is constructed by EPDPL as the turnkey contractor. 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. Acuite believes, the premium nature of the project and its prime location will benefit the company in realizing the value of the project.

- **Adequate asset coverage and guarantee from EPDPL**

  The company plans to raise Rs 600 Cr non-convertible debentures for the construction of the project. 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. The company plans to monetize the asset once completed and utilize the proceedings from this to redeem the NCD.

- **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 cyclicality 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**

  The company has appointed EPDPL as the turnkey contractors for the project 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. Acuite believes, any significant delay in the same will have detrimental impact on the credit profile of the company.

Liquidity Position: 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 debt in the books of the company is related to lease rental discounting (LRD) against receivables of rental income from Embassy Techsquare and the outstanding balance in the loan is Rs 120.00 Cr. The projected repayment of the LRD facility for the period of FY22-FY24 is in the range of Rs 3.08 Cr to Rs 4.84 Cr. Further, there is no commingling of receivables and repayments between the proposed NCD and LRD facility. The project cost is Rs 650.00 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.

Rating Sensitivities

- Any delay in project construction resulting in cost overruns.
- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc.

Outlook: Stable

Acuité 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.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	8.63*	11.32*
PAT	Rs. Cr.	1.07	(12.57)
PAT Margin	(percent)	12.37	(111.04)
Total Debt/Tangible Net Worth	Times	0.41	0.41
PBDIT/Interest	Times	1.47	0.17

**operating income does not include rental income which is considered as a part of Other Income.*

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. 1. 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.

Any Material Covenants
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities in Service Sector - https://www.acuite.in/view-rating-criteria-50.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 (Up to last three years)
Not applicable

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
--	Proposed Non-Convertible Debentures	NA	16.00% IRR	4 years	300.00	Provisional ACUITE BBB-/Stable (Assigned)

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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 8,786 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.