March 31, 2020

Embassy Property Developments Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non convertible debenture – I	203.60	203.60	[ICRA]BBB-(CE); reaffirmed; outlook revised to Negative from Stable
Non convertible debenture – II	21.94	21.94	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Term loans	1,000.00	1,000.00	[ICRA]BBB-(CE); reaffirmed; outlook revised to Negative from Stable
Non-fund based limits ^	(100.00)	(100.00)	[ICRA]BBB-(CE); reaffirmed; outlook revised to Negative from Stable
Total	**1,225.54**	**1,225.54**	

**Instrument details are provided in Annexure-1; ^ sub-limit of term loans*

Rating Without Explicit Credit Enhancement	[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating for the Rs 1,000.00 crore term loan and sub-limit therein is supported by cash flows from Embassy Services Private Limited (ESPL), which is a co-borrower for the facility. The security package for the facility includes charge over the current assets and cash flows of ESPL.

The rating for the Rs 203.60 crore non-convertible debenture(NCD) programme (NCD-I) is supported by the security cover for the borrowings in the form of pledge over the shares of the holding company for the one of the group's commercial real estate investments.

The rating for the Rs 21.94 crore NCD programme (NCD-II) factors in the specific features of the transaction, including the escrow of all receipts from the sale of identified residential units offered as security for the facility as well as requirement to repay principal and interest only to the extent of credits available in the escrow account.

The revision in the rating outlook takes into account the large upcoming debt repayments in FY2021, especially on the working capital debt for the residential projects of EPDPL, whereas the operational cash flows from these projects have been subdued. Consequently, the company is reliant on refinancing of the debt or generation of cash flows through monetization of assets. ICRA notes that the company is in advanced stage of availing long tenured debt (10 years) which will be used to prepay existing debt, including the ones with large repayments due in FY2021. Timely conclusion of such refinancing transaction will be a key rating monitorable.

The ratings continue to take into account the established track record of the Embassy Group in the commercial real estate segment. EPDPL is one of the sponsors for Embassy Office Parks REIT (Embassy REIT), the first real estate investment trust (REIT) to be listed in India. The group has developed marquee office parks such as Embassy Manyata Business Park and Embassy Golflinks Business Park, which are now part of Embassy REIT. The rating also draws strength from the free cash flow generation from the facility management services (FMS) companies of the group which are the co-borrowers for the rated term loan. Embassy Property Developments Private Limited (EPDPL), being the flagship company of the Embassy Group, derives financial flexibility from its investments in a large commercial real estate portfolio through various special purpose vehicles (SPVs) of the group. Embassy REIT was successfully listed in April 2019 and will provide recurring dividend income to EPDPL. In addition, the group plans to sell some of its commercial real estate assets to the REIT based on the right of first refusal arrangement with the latter. The rating for NCD-II programme is additionally supported by its long tenor and cash flow based redemption mechanism whereby sale proceeds from identified units in completed residential projects of the group are used to service the debt.

The rating is, however, constrained by the high refinancing risks associated with the Rs. 203.60 crore NCD redemption as the entire principal and redemption premium will need to be serviced as a single bullet by June 2020. Nonetheless, ICRA notes that the company is in advanced stages of drawing a long tenure debt facility, which will be used to prepay existing debt, including NCD-I and NCD-II. The rating also considers the slow sale velocity of the residential apartment units being developed by EPDPL on account of the high-ticket sizes and overall moderation in residential demand. Given the large scale of repayments due on the associated construction finance facility in FY2021, the company would be dependent on other cash flows in case of continued weakness in the sales and collections from residential projects. The rating is also constrained by high leverage level in EPDPL on account of the significant investments in various projects and SPVs of the group. The total external debt as on December 2019 was Rs 6,887 crore on standalone basis. Due to high overheads and finance costs, profitability has remained very low, resulting in weak debt coverage metrics and high reliance on refinancing.

ICRA notes that EPDPL proposes to enter into a scheme of arrangement whereby certain completed and ongoing projects of EPDPL will be transferred to Indiabulls Real Estate Limited in consideration for shares in the latter. ICRA will evaluate the impact of the scheme once the details are announced and take rating action accordingly.

Key rating drivers and their description

Credit strengths

Established presence of Embassy group in the commercial real estate segment: The Embassy group is among the largest commercial real estate developers in the country. The group has business parks in locations such as Bangalore and Pune, with upcoming projects in Chennai, Hyderabad and Trivandrum.

Financial flexibility arising from EPDPL's investments, including Embassy REIT: EPDPL, being the flagship company of the group, has significant financial flexibility resulting from its investments in the completed commercial real estate portfolio, including a 15% stake in Embassy REIT. Embassy REIT was successfully listed in April 2019 and will provide recurring dividend income to EPDPL. In addition, the group plans to sell some of its commercial real estate assets to the REIT based on the right of first refusal arrangement with the latter.

Support from group entities, including ESPL: The rating for the term loan also draws strength from the free cash flow generation from the facility management services (FMS) companies of the group which are the co-borrowers for the facility.

Credit challenges

Slow sales of units in the residential projects: Cash flows from EPDPL's ongoing residential real estate projects have been weak on account of slow sales. The financing deficits at the company level could remain elevated if the cash flows from residential segment remain subdued going forward also, especially given the large repayments due on the associated borrowings in FY2021.

High refinancing risk: EPDPL 's debt profile has a mix of construction finance for under development projects and general corporate loans taken to support growth investments. The total external debt as on December 2019 was Rs 6,887 crore on standalone basis. Due to the presence of many general corporate and acquisition loans, there is high refinancing risk in the absence of operational cash flows for servicing these loans. The refinancing risk is especially high for NCD-I as it is due for repayment as a single bullet by June 2020 as per the amended terms. Nonetheless, ICRA notes that the company is in advanced stages of drawing a long tenure debt facility, which will be used to prepay existing debt, including NCD-I and NCD-II.

Weak financial risk profile: As a holding company for the group's real estate operations, EPDPL's standalone financial risk profile is characterized by modest operating cash flows, high overheads and high leverage to support the group's expansion and growth plans. Consequently, EPDPL continues to report weak profitability and stretched debt coverage metrics.

Liquidity position: Stretched

The liquidity position of EPDPL is stretched on account of the limited operational cash flows and high funding commitments towards ongoing capital expenditure projects and various subsidiaries and joint ventures. Moreover, the debt profile includes many general corporate purpose and acquisition loans which carry refinancing risk. Nonetheless, the group 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. EPDPL had cash and bank balances of Rs 143 crore as on March 31, 2019.

Rating sensitivities

Positive triggers: Deleveraging of the company's balance sheet through monetization of investments in various completed and under-development assets, or improvement in collections from residential projects.

Negative triggers: Any delay in completing the planned refinancing of debt or delay in monetization of investments leading to high repayment obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Companies Approach for rating debt instruments supported by structural features (Non-securitized transactions)
Parent/Group Support	For the ratings of the Rs 1,000 crore term loan (including its sub-limit) and NCD-I, support has been derived from group entities as mentioned in the rating rationale
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer

About the company

Embassy Property Developments Private Limited (EPDPL) is the flagship company of Embassy Group - a leading real estate developer of South India - engaged in development of commercial, residential, and retail spaces. Promoted by Mr. Jitendra Virwani, EPDPL commenced operations in the real estate sector in 1993 under the name of Virwani Builders. The company name was subsequently changed to Embassy Property Developments Private Limited in April 2010.

The group, together with its promoters, has experience spanning 30 years in the real estate market. EPDPL along with its subsidiaries has an extensive land bank across the country and has developed over 45 million square feet (sq ft) of prime commercial, residential and retail space. Embassy, along with Blackstone Group, is the sponsor for Embassy Office Parks REIT, the first REIT to be listed in India.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	379.5	593.1
PAT (Rs. crore)	-337.6	-448.7
OPBDIT/OI (%)	-77.2%	-6.5%
RoCE (%)	1.6%	4.0%
Total Outside Liabilities/Tangible Net Worth (times)	6.31	12.27
Total Debt/OPBDIT (times)	n.m.	n.m.
Interest Coverage (times)	n.m.	n.m.
DSCR	n.m.	n.m.

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company has amended the terms of NCD-I to extend the redemption till June 30, 2020. The NCDs were scheduled to be redeemed by March 31, 2020. However, as per the disclosure made by the company to the exchange on March 23, 2020, its fund raising plans had been impacted by Covid-19 related shutdowns and hence it had sought necessary approvals for extension in the redemption date.

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="6">Rating (FY2020)</th><th colspan="6">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding</th><th>Current Rating</th><th colspan="2">Earlier Rating</th><th colspan="2">FY2019</th><th colspan="3">FY2018</th><th>FY2017</th></tr>
<tr><th>31-Mar-2020</th><th>10-Jan-2020</th><th>10-Oct-2019</th><th>31-Dec-2018</th><th>12-Jul-2018</th><th>31-Jan-2018</th><th>29-Dec-2017</th><th>07-Jul-2017</th><th>06-Jan-2017</th></tr>
<tr><td>1</td><td>NCD – I</td><td>Long Term</td><td>203.60</td><td>203.60</td><td>[ICRA]BBB-(CE) (Negative)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td rowspan="3">Ratings placed on watch with developing implications</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td></tr>
<tr><td>2</td><td>NCD – II</td><td>Long Term</td><td>21.94</td><td>21.94</td><td>[ICRA]BBB- (Negative)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (Stable)</td></tr>
<tr><td>3</td><td>Term Loan</td><td>Short Term</td><td>1,000.00</td><td>544.00</td><td>[ICRA]BBB-(CE) (Negative)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>-</td></tr>
<tr><td>4</td><td>Non-fund based[1]</td><td>Long Term</td><td>(100.00)</td><td>-</td><td>[ICRA]BBB-(CE) (Negative)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (CE) (Stable)</td><td>[ICRA]BBB- (SO) (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

Amount in Rs. Crore;

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[1] Sub limit of term loan

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE003L07028	NCD – I	Apr-2014	12.07%	Jun-2020	203.60	[ICRA]BBB-(CE) (Negative)
INE003L07044	NCD – II	Dec- 2014	12.00%	Dec- 2021	21.94	[ICRA]BBB- (Negative)
NA	Term Loan – I	Dec- 2016	-	Mar-2029	600.00	[ICRA]BBB-(CE) (Negative)
NA	Term Loan – II	Dec- 2016	-	Dec-2022	400.00	[ICRA]BBB-(CE) (Negative)
NA	Non-fund based[1]	-	-	-	(100.00)	[ICRA]BBB-(CE) (Negative)

Source: EPDPL; 1- sublimit of term loans

Annexure-2: Not applicable

Analyst Contacts

Shubham Jain
+91 124 4545306
shubhamj@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Nishant Mishra
+91 80 4332 6408
nishant.mishra@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents