ICRA

July 07, 2017

Embassy Property Developments Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based – Term Loan	1,000	[ICRA]BBB-(SO) (Stable); assigned
Non Convertible Debentures - I	554	[ICRA]BBB-(SO) (Stable) outstanding
Non Convertible Debentures - II	109	[ICRA]BBB-(SO) (Stable) reassigned from [ICRA]BBB- (Stable)

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of **[ICRA]BBB-(SO)** (pronounced as ICRA triple B minus Structured Obligation) on the Rs 1000-crore long-term bank facilities of Embassy Property Developments Private Limited (EPDPL). The outlook on the long-term rating is **'Stable'**. An 'SO' rating is specific to the rated issue, its terms and its structure and 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating takes into account the structural features of the rated term loan, including hypothecation of cash flows of the facility management services (FMS) companies of the Embassy Group {Embassy Services Private Limited (ESPL), which is a co-borrower for the rated term loan} and maintenance of debt service reserve account (DSRA[1], equivalent to 3 months interest).

ICRA has an outstanding rating of **[ICRA]BBB-(SO)** (pronounced ICRA triple B minus Structured Obligation) on the Rs 554-crore Non Convertible Debentures of EPDPL. ICRA has also reassigned the ratings assigned to Rs 109-crore Non Convertible Debentures of EPDPL to **[ICRA]BBB-(SO)**) (pronounced ICRA triple B minus Structured Obligation) from [ICRA]BBB- (pronounced ICRA triple B minus) in line with the structural features of the rated NCD programme. The outlook on the long-term ratings is **'Stable'**. The details of the ratings are mentioned in the rationale released on the ICRA website on 6th January, 2017.

Rationale

The rating favourably factors in the strong free cash flow generation from the FMS segment of the group which will support the bulk of the debt servicing obligations on the rated term loan. The income from this segment is expected to grow further in line with the pipeline of ongoing and planned projects of the Embassy group in the commercial real estate segment. The rating is also supported by the significant financial flexibility of EPDPL resulting from its investments in the commercial real estate portfolio where it is planning a public listing through REIT. The rating is also supported by the free cash flow potential from other projects of EPDPL, including the ongoing residential projects in Bangalore. ICRA also takes comfort from the presence of a DSRA, which serves to partly absorb any short term cash flow mismatches. EPDPL has maintained a DSRA equivalent to three months interest in the form of fixed deposits with the lender, with DSRA covering principal also to be created before principal repayments commence.

The rating is, however, constrained by the high leverage level in EPDPL on account of the significant investments in various projects and SPVs of the group. The high debt level exposes the company to refinancing risk. ICRA also notes that the current scale of income from facility management services would be inadequate to support the debt servicing obligations on the rated loan over the medium term and

[1] While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism

hence significant ramp-up in scale of properties management is required for the cash flows to match the increase in debt servicing. Moreover, the residential projects of EPDPL have seen slow sales progress on account of the high ticket sizes and overall moderation in residential real estate demand.

Going forward, the company's ability to increase portfolio under management in the FMS segment and improvement in the sales velocity of the residential projects will be the key rating sensitivities.

Key rating drivers

Credit strengths
- Long and established presence of Embassy group in the commercial real estate segment in Bangalore market
- Financial flexibility arising from EPDPL's commercial real estate portfolio and proposed REIT listing for the same
- DSRA covering three months interest payments maintained by the company

Credit weaknesses
- Further growth in portfolio under FMS segment is required for cash flows to ramp up in line with the debt servicing obligations
- Slowdown in sales of units in the residential projects
- Significant leveraging at the company level, which exposes it to high refinancing risk

Description of key rating drivers:
The rated loans of EPDPL will be repaid through the cash flows from the facility management services provided by the group companies of EPDPL, namely, ESPL, VTV Infrastructure Management Private Limite (VIMPL) and Embassy BMS Services (India) Private Limited (EBMSSPL). Any variation in the cash flows from this segment as compared to the base case projected scenario can affect the debt servicing capability of EPDPL with respect to the rated term loan.

ESPL provides facility management services to the tenants in Embassy's portfolio parks like Embassy Golf Links Business Park and Manyata Embassy Business Park, apart from certain Blackstone portfolio parks as well as Embassy's residential projects. VIMPL and EBMSSPL provide facility management services to the tenants in Vikas Telecom Private Limited. The total portfolio managed by the three companies was around 30 msf as of March 2017. There is a significant area under development in Embassy Group. Timely completion and leasing out of the projects will provide additional receipts from facility management services.

EPDPL being the holding company for the group has availed significant debt for part funding its investments in various projects and SPVs of the group. These projects being in various stages of development and commercialization, EPDPL is exposed to high refinancing risk. Cash flows from EPDPL's own ongoing projects – which are mainly in the residential segment – have been weak in recent months on account of slow sales. Nonetheless, ICRA notes that EPDPL has significant financial flexibility resulting from its investments in the completed commercial real estate portfolio where it is planning a public listing of the assets through REIT.

Analytical approach: For arriving at the ratings, ICRA has taken into consideration the hypothecated cash flows for the rated term loan, which includes facility management income of three Embassy Group companies (ESPL, VIMPL and EBMSSPL) apart from the cashflows of EPDPL.

Links to applicable criteria:
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Real Estate Entities
Approach for rating debt instruments supported by structural features (Non-securitized transactions)

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 37 million square feet (sq ft) of prime commercial, residential and retail space. A substantial portion of the group's rental space is leased by customers in the IT/ITES sector with majority of the completed projects in commercial portfolio is located in large business parks located in Bangalore and Pune. Out of the total real estate development, the group has completed over 6 million sq ft of residential space.

In FY2016, EPDPL on a standalone basis reported a net loss of Rs. 10 crore on an operating income of Rs. 518 crore. In FY2015, EPDPL reported a net loss of Rs. 194 crore on an operating income of Rs. 365 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating				Chronology of Rating History for the Past 3 Years		
		Type	Rated amount (Rs. Crores)	Outstanding amount (Rs. crore)*	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	
					July 2017	Jan 2017	Dec 2014	May 2014
1	Term Loan	Long Term	1000	600	[ICRA]BBB- (SO) (Stable)	-	-	-
2	NCD – I	Long Term	554		[ICRA]BBB- (SO) (Stable)	[ICRA]BBB- (SO) (Stable)	[ICRA]BBB- (SO) (Stable)	[ICRA]BBB- (SO) (Stable)
3	NCD – II	Long Term	109		[ICRA]BBB- (SO) (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

* Outstanding amount is as on March 2017

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

Annexure-1
Instrument Details

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity**	**Size of the issue (Rs. crore)**	**Current Rating and Outlook**
Term Loan	-	-	Mar 2029	1000	[ICRA]BBB-(SO) (Stable)
Non Convertible Debentures – I ISIN: INE003L07028	Apr 2014	5% (IRR)	Apr 2018	554	[ICRA]BBB-(SO) (Stable)
Non Convertible Debentures – II ISIN: INE003L07044	Dec 2014	12%	Dec 2021	109	[ICRA]BBB-(SO) (Stable)

Source: Embassy Property Developments Private Limited

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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**

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