



Embassy Office Parks Private Limited

Instrument	Amount	Rating Action
	Rs crore	May 2015
Non convertible debentures	160.0	[ICRA]BBB- (Stable) reaffirmed

ICRA has reaffirmed the **[ICRA]BBB-** (pronounced as ICRA triple B minus) rating assigned to the Rs 160 crore Non-Convertible Debenture (NCD) programme of Embassy Office Parks Private Limited (EOPPL)*. ICRA has assigned a stable outlook to the long-term rating. The rating has been confirmed as final rating following completion of the demerger process in Pune Dynasty Projects Private Limited (PDPPL) and transfer of the rated NCDs from PDPPL to EOPPL.

In October 2014, the scheme of arrangement for transfer of the commercial property development business from PDPPL to EOPPL received approval from the High Court of Karnataka. As part of this demerger, all the commercial real estate assets and liabilities of PDPPL, including the rated NCDs, have been transferred to EOPPL.

The proceeds from the issuance of the Rs 160 crore NCDs were extended as an inter-company loan to EOPPL's parent, Embassy Property Developments Private Limited (EPDPL, the flagship company of the Embassy group), for the latter's general corporate purposes. The instrument, issued in April 2013, has a tenor of four years and a coupon of 18% with provision for liquidity support in the form of a Debt Service Reserve Account (DSRA) equivalent to four months' interest payments. Surpluses from five residential projects being developed by EPDPL comprise the primary source of cash flows for repayment of the said inter-corporate loan and hence the rated NCDs. Hence ICRA's analysis in respect of the rated NCDs has focussed on EPDPL's business and financial risk profile.

The rating reaffirmation favourably considers the established track record of Embassy group in the real estate sector, especially in Bangalore, as well as the receipt of all statutory approvals for the ongoing projects of the company. The rating favourably factors in the healthy bookings achieved in two of the ongoing residential projects in Bangalore (Lake Terraces and Pristine) as well as EPDPL's status as the flagship entity of the reputed Embassy group and the Embassy group's access to unencumbered fully-paid land bank which may provide fund-raising ability, if required.

However, the rating is constrained by the exposure to execution, market and funding risks with respect to these ongoing projects. Moreover, EPDPL is exposed to high funding risks on these projects due to the high dependence on customer advances, accentuated on account of lumpy sales velocity in its high end projects. The funding risks are moderated to some extent by the refinancing of earlier construction loans taken for these projects with receivables discounting loans, thereby extending the tenure and providing additional funds to finance ongoing construction. Apart from Pristine and Oasis, the other projects are high ticket sizes which enhance the market risks associated with units in these projects.

The rating also considers the deterioration in EPDPL's standalone financial risk profile on account of continuing cash losses in FY14 and corporate guarantees and funding support extended to group companies. Moreover, the company is exposed to risks pertaining to market acceptance and funding requirements of its planned new project launches. Any further expansions or acquisitions made by the Embassy Group can also stretch its financial profile.

Going forward, EPDPL's ability to improve the sales velocities across projects and complete balance construction activities in line with the planned timelines would be the key rating sensitivity.

* For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



Company Profile

Embassy Property Developments Private Limited (EPDPL) is the flagship company of the Embassy group. The Embassy group is a reputed Bangalore-based real estate developer with demonstrated track record of executing projects in the commercial real estate segment.

Pune Dynasty Projects Private Limited (PDPPL) is a 100% subsidiary of EPDPL, having investments in Embassy group's various commercial projects - Manyata Promoters Private Limited (MPPL), Golflinks Software Park Private Limited (GLSP) and Pune Embassy Projects Private Limited (PEPPL).

As part of a group restructuring exercise, most of PDPPL's assets and liabilities pertaining to commercial real estate business have been de-merged into a separate company – Embassy Office Parks Private Limited (EOPPL). PDPPL's investments in PEPPL, GLSP, MPPL as well as the rated NCDs have also been transferred to EOPPL. Prior to this demerger, EOPPL did not have any business operations.

EOPPL's shareholding is held entirely by EPDPL; however, EOPPL has also issued compulsorily convertible debentures to Blackstone (transferred from PDDPL). With the eventual conversion of the CCD investment by Blackstone, the latter's stake in EOPPL will be about 50%. In October 2014, the Karnataka High Court granted approval for the scheme of arrangement.

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