

January 31, 2018

## Embassy Property Developments Private Limited

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debentures	554.0	554.0	[ICRA]BBB-(SO) reaffirmed; rating removed from rating watch with developing implications and 'Stable' outlook assigned
Non Convertible Debentures	109.0	109.0	
Term loans	1,000.0	1,000.0	
<b>Total</b>	<b>1663.0</b>	<b>1,663.0</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB-(SO) (pronounced ICRA triple B minus SO) assigned to the Rs. 554-crore<sup>1</sup> and Rs. 109-crore non convertible debenture (NCD) programmes and Rs. 1,000-crore term loans of Embassy Property Developments Private Limited (EPDPL). The rating watch with developing implications has been removed and 'Stable' outlook has been assigned to the long term rating. ICRA had earlier placed the rating on watch with developing implications following the announcement of amendment in terms of the Rs 554 crore NCD programme. The amended terms have been considered while reaffirming the rating.

### Rationale

The rating reaffirmation factors in the established presence and track record of Embassy group in the commercial real estate segment in Bangalore market and its strong relationship with reputed clientele resulting in high occupancy level across properties. The rating favorably factors in the strong free cash flow generation from the facility management services (FMS) segment of the group which will support the bulk of the debt servicing obligations on the rated term loan. EPDPL, being the flagship company of the group, derives financial flexibility from its investments in a large commercial real estate portfolio through various special purpose vehicles (SPVs) of the group. Moreover, the group is planning a public listing through REIT. The rating reaffirmation also considers the significant principal amortization on the rated NCDs since the last rating. The rating for the Rs 109 crore NCD 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. ICRA also takes comfort from the presence of a debt service reserve account (DSRA)<sup>2</sup> for the term loan, which serves to partly absorb any short term cash flow mismatches.

The rating is, however, constrained by the high refinancing risks associated with the Rs. 554 crore NCD redemption as the entire principal and redemption premium will need to be serviced as a single bullet falling due on 30<sup>th</sup> June, 2018 as per the amended terms. The rating for the Rs. 109 crore NCD is constrained by 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. 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 hence significant ramp-up in scale of properties managed is required for the cash flows to match the increase in debt servicing. The rating is also constrained by high leverage level in EPDPL on account of the significant investments in various

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism

projects and SPVs of the group. The high debt level has resulted in significant erosion in profitability and exposes the company to refinancing risk.

**Outlook:** ICRA believes that the credit profile of EPDPL will remain stable going forward backed by the value of its investments in the commercial real estate portfolio of the group. The outlook might be revised to 'Positive' if there is an improvement in the sales velocity of the residential apartment units or reduction in debt levels through monetization of various assets including successful REIT listing. The outlook may be revised to 'Negative' if sustained slowdown in the sales of residential units constrains the liquidity profile of the company or if cash flows from the facility management services segment do not ramp up as per current expectations or the company takes up additional debt funding beyond current financing plans.

### Key rating drivers

#### 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 commercial real estate portfolio:** EPDPL, being the flagship company of the group, 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.

**DSRA support for rated term loan:** The rated term loan carries a debt service reserve account (DSRA) covering three months interest payments which provides liquidity support in case of any cash flow mismatches.

#### Credit weaknesses

**Further growth in portfolio under FMS segment critical:** The rated term loans of EPDPL will be repaid through the cash flows from the facility management services undertaken by the group companies of EPDPL. Any negative 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.

**Slowdown in sales of units in the residential projects:** Cash flows from EPDPL's ongoing residential real estate projects have been weak in recent months on account of slow sales. The repayment of the Rs. 109 crore NCDs are linked to sale proceeds from identified units in completed residential projects of EPDPL. In addition to the cashflows from residential projects, funds deposited in the escrow account by the company can also be utilized for the redemption of the Rs. 109 crore NCDs.

**Significant leveraging at the company level, which exposes it to high refinancing risk especially with respect to the Rs. 554 crore NCDs:** EPDPL 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.

**Analytical approach:** For arriving at the ratings, ICRA has taken into account the identified cash flow security and specific terms for each of the rated instrument, apart from the standalone operational and business risk profile 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 45 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 FY2017, EPDPL on a standalone basis reported a net loss of Rs. 281 crore on an operating income of Rs. 270 crore. In FY2016, EPDPL reported a net profit of Rs 31 crore on an operating income of Rs. 518 crore.

**Key Financial Indicators (audited):**

	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	518.1	269.9
PAT (Rs. crore)	31.2	-281.2
OPBDIT/ OI (%)	-7.4%	-126.0%
RoCE (%)	5.2%	0.0%
Total Debt/ TNW (times)	1.7	2.9
Total Debt/ OPBDIT (times)	-92.8	-15.7
Interest coverage (times)	-0.2	-0.8
NWC/ OI (%)	103.7%	349.6%

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** None

**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 FY2018		Month-year & Rating in FY2017	Month-year & Rating in FY2016
					<b>Jan 2018</b>	<b>Dec 2017</b>	<b>Jul 2017</b>	<b>Jan 2017</b>	<b>Jun 2015</b>
1	NCD – I	Long Term	554.0	204.0	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO)& placed on rating watch with developing implications	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)
2	NCD – II	Long Term	109.0	37.2	[ICRA]BBB-(SO) (Stable)		[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(Stable)	-
3	Term Loan	Long Term	1000.0	600.0	[ICRA]BBB-(SO) (Stable)		[ICRA]BBB-(SO) (Stable)	-	-

\* Outstanding amount is as on December 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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity</b>	<b>Size of the issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Non Convertible Debentures – I ISIN: INE003L07028	Apr 2014	9.70% (IRR)	Jun 2018	554.0	<b>[ICRA]BBB-(SO)</b> <b>(Stable)</b>
Non Convertible Debentures – II ISIN: INE003L07044	Dec 2014	12.00%	Dec 2021	109.0	
Term Loan – I	Dec 2016	11.75%	Mar 2029	600.0	
Term Loan – II	Dec 2016	12.50%	Dec 2022	400.0	

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.

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