

Emaar MGF Land Limited

October 05, 2018

Summary of rated instruments

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------|-------------------------------------|------------------------------|
| Term Loans | 779 | [ICRA]BBB (Stable); assigned |
| Overdraft | 220 | [ICRA]BBB (Stable); assigned |
| Non-fund-based Limits | 200 | [ICRA]A3+; assigned |
| Total | 1199 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) for the Rs. 779-crore¹ term loans and Rs. 220-crore overdraft limits of Emaar MGF Land Limited (EMGF). The outlook on long-term rating is Stable. Further, ICRA has assigned the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 200-crore non-fund based limits of EMGF².

Rationale

The ratings take into account the significant financial, operational and management support extended to EMGF by its majority shareholder – Emaar Properties PJSC (Emaar; rated Baa3 by Moody’s Investors Service) over the last two years. The support from Emaar has enabled EMGF to raise funds at competitive rates of interest and to expedite the construction of most its projects, which enabled it to deliver more than 3,000 units in the last two years. The support has been extended to EMGF post agreement on demerger of the interest of the MGF Group from EMGF and shift of control of majority of the board and shareholding to Emaar in May 2016. The demerger was subsequently approved by the National Company Law Tribunal (NCLT) and Registrar of Companies (RoC) and became effective from July 31, 2018.

The ratings also derive comfort from Emaar’s extensive experience in developing projects across countries and in all segments of real estate. The execution capabilities are demonstrated through marked improvement in EMGF’s project execution in the last two years. With Emaar overhauling the leadership team of EMGF and extending significant support to it, ICRA expects the company’s operational and financial performance to improve going forward. Further, on account of active involvement of Emaar, the payment on EMGF’s non-convertible debentures (NCDs) may be deferred and part of the obligation will shift to the MGF Group (due to demerger), thereby reducing the repayment pressure in FY2020. The ratings further take into account EMGF’s large and favourably located land bank, part of which is planned to be monetised to shore up liquidity, and its strong market position in the key market of the National Capital Region (NCR). On account of the delivery of all ongoing projects, the brand perception is also likely to improve. While assigning the ratings, ICRA has taken note of the explicit support provided by Emaar to cover most of EMGF’s borrowings in the form of either corporate guarantee, letter of comfort or stand-by letter of credit.

The ratings, however, are constrained by EMGF’s high leverage and its large refinancing requirements on account of its weak operational cash flows due to delay in projects, cost overrun, and challenging real estate market. Cash flows from ongoing projects will be inadequate to meet the pending costs and current debt outstanding, making the company reliant on project launches, refinancing and asset monetisation. ICRA expects the company to continue to incur losses till the leverage is brought down or operational cash flows pick up substantially. Timely and adequate support from Emaar

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

during this period is critical and it will be the key rating sensitivity. ICRA has also noted that the company is exposed to contingent liabilities on account of ongoing litigations and adverse outcome may impact the company's credit risk profile.

Outlook: Stable

Emaar has provided operational, financial and managerial support to EMGF to improve its execution capabilities and to reduce the cash losses going forward. This has enabled robust execution and significant fund raising at competitive rates of interest. The ratings may be upgraded in case the company's leverage and cash losses reduce substantially going forward. The ratings may be downgraded in case the support from Emaar is not timely or inadequate, or its cash flow or leverage deteriorate further.

Key rating drivers

Credit strengths

Demonstrated support from Emaar post the shift of control of board and shareholding - EMGF is a joint venture between the MGF Group (a North India-based developer) and Emaar Properties PJSC (a large Dubai-based developer with presence in more than 12 countries). Emaar has developed around 100 million square feet internationally and across all segments of real estate. Post taking control of EMGF, Emaar has extended significant operational, financial and managerial support to the former. This has led to improvement in project execution and has enabled EMGF in raising significant funds at competitive rates of interest. Timely and adequate support from Emaar is critical and it will be the key rating sensitivity.

Marked improvement in pace of execution and deliveries - Substantial support from Emaar led to rapid pace of execution across all projects in last two years. This is likely to lead to better market position and sales velocity going forward. The company has already delivered more than 3,000 units in the last two years and the execution is going on at a robust pace at almost all sites.

Significant and favourably located land bank - Post the demerger, the company will have land bank of ~5,900 acre, which is fully paid up and is favourably located across various cities in India. The company is actively looking for land monetisation opportunities, which will shore up its liquidity.

Healthy bookings – About 81% of the space in the ongoing projects has already been sold, reflecting low exposure to market risks for ongoing projects. Nonetheless, more launches will be exposed to significant market risks, given the slowdown in the market.

Credit challenges

High leverage and repayment obligations - In the last two years, Emaar extended support in the form of standby letters of credit (SBLCs), guarantees and letter of comfort (LoC). It has not infused equity since many years. Thus, leverage and debt repayment obligations continue to be high. Nonetheless, on account of Emaar's active involvement, the payment on EMGF's non-convertible debentures (NCDs) may get deferred and part of the obligation will also shift to the MGF Group (due to demerger), reducing the repayment pressure in FY2020 to that extent.

Weak cash flows and significant losses – The company has been making net losses since last eight years. Further, the company is facing cash flow deficits on account of weak operational accruals (due to delay in projects, cost overrun, and challenging real estate market), its significant financial expenses and its large repayment obligations. Cash flows from

ongoing projects will be inadequate to meet the pending costs and current debt outstanding, making the company reliant on project launches, refinancing and asset monetisation.

Slowdown in real estate market - Slowdown in real estate has affected the offtake of projects. This coupled with oversupply situation in many pockets where EMGF's plans to launch projects, will impact the future launches.

Vulnerability to contingent liabilities - The company is exposed to contingent liabilities on account of multiple ongoing litigations. Any adverse outcome may impact company's credit risk profile.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)

[Rating Methodology for Real Estate Entities](#)

About the company

Emaar MGF Land Limited (EMGF) was founded in 2005 as a joint venture (JV) between the MGF Group and Emaar Properties PJSC. EMGF is developing residential, commercial and retail projects in different parts of India, including Delhi/NCR, Mohali, Lucknow, Indore, Jaipur and Chennai. Currently, EMGF has a total land bank of around 9,000 acres. It filed the demerger scheme in the High Court of Delhi on May 16, 2016, and the case was later transferred to National Company Law Tribunal (NCLT). In July 2018, NCLT approved the demerger and on July 31, 2018 (effective date) the scheme was approved by the RoC. Post demerger, EMGF has around ~5,900-acre land bank and the entity is controlled by Emaar. The agreed assets and liabilities of the MGF Group have to be formally demerged by October 31, 2018.

Key Financial Indicators (Audited)

| | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 979 | 1346 |
| PAT (Rs. crore) | -758 | -727 |
| OPBDIT/ OI (%) | -11.2% | -15.7% |
| RoCE (%) | -1.6% | -2.3% |
| Total Debt/ TNW (times) | 2.6 | 4.4 |
| Total Debt/ OPBDIT (times) | -50.5 | -29.7 |
| Interest Coverage (times) | -0.17 | -0.38 |
| NWC/ OI (%) | 811% | 611% |

Source: EMGF's Annual Report, ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| Instrument | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | | | |
|------------|-------------------------|--------------------------|--------------------------------|--------------------|---|-------------------------|----------|-------------------------|--|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 | | Date & Rating in FY2016 | |
| | | | | Oct 2018 | | Feb 2017 | Jan 2016 | Oct 2015 | |
| 1 | Term Loans | 779.00 | 779.00 | [ICRA]BBB (stable) | - | - | - | - | |
| 2 | Overdraft Limits | 220.00 | 220.00 | [ICRA]BBB (stable) | - | - | - | - | |
| 3 | Non-fund Based Limits | 200.00 | 200.00 | [ICRA]A3+ | - | - | - | - | |
| 4 | NCD | 600.00 | 0.00 | - | - | [ICRA]D (Withdrawn) | [ICRA]D | [ICRA]B | |

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

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan 1 | 27.09.2016 | 8.05% | 26.09.2022 | 500.00 | [ICRA]BBB (Stable) |
| NA | Term Loan 2 | 27.12.2016 | 8.30% | 26.12.2021 | 279.00 | [ICRA]BBB (Stable) |
| NA | Overdraft Facility | 29.09.2017 | 8.20% | 29.09.2018 | 220.00 | [ICRA]BBB (Stable) |
| NA | Non-fund Based Limits | -- | -- | -- | 200.00 | [ICRA]A3+ |

Source: Emaar MGF Land Limited

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