

Embassy Property Developments Private Limited Revised

December 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debentures – I	554.00	203.60	[ICRA]BBB-(SO) (Stable); reaffirmed
Non Convertible Debentures –II	109.00	21.94	[ICRA]BBB-(SO) (Stable); reaffirmed
Term Loans	1,000.00	1000.00	[ICRA]BBB-(SO) (Stable); reaffirmed
Non-fund based (sub limit of term loan)	-	(100.00)	[ICRA]BBB-(SO) (Stable); assigned
Total	1,663.00	1,225.54	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the established track record of the Embassy Group in the real estate segment in Bangalore. The rating considers the high quality of its assets and the strong relationship of the Embassy Group with a reputed clientele resulting in high occupancy level across the commercial properties developed by the group. The rating also draws strength from the strong free cash flow generation from the facility management services (FMS) companies of the group which are the coborrowers 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. The rating considers the planned public listing of the commercial assets through a Real Estate Investment Trust (REIT), which is expected to provide recurring dividend income to EPDPL. The rating for the Rs 109 crore NCD (of which Rs 21.94 crore is outstanding) 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. 554 crore NCD redemption (of which Rs 203.60 crore is outstanding) as the entire principal and redemption premium will need to be serviced as a single bullet by 31st March 2019. 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. ICRA also notes that the current scale of income from FMS would be inadequate to support the debt servicing obligations on the rated term loans 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 projects and SPVs of the group. The total external debt as on July 2018 was Rs 5,682 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.

Outlook: Stable

ICRA believes that the credit profile of EPDPL will remain stable going forward supported 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 monetisation 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 the expectations or the company takes up additional debt funding beyond current financing plans. The progress on the proposed REIT listing of identified assets of the group and its impact on EPDPL's profile will be a key rating monitorable.

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. EPDPL, along with Blackstone, have filed a draft offer document towards the listing of Embassy Office Parks REIT, which will acquire identified assets of the group.

Substantial land bank of the Embassy Group: The Embassy Group has substantial land bank against which it has flexibility to raise debt financing.

Credit challenges

Growth in portfolio under FMS segment critical: The rated term loans of EPDPL will be repaid through the cash flows from the FMS undertaken by the group companies of EPDPL. Any negative variation in the expected growth of the FMS segment can affect the debt servicing ability of 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 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.

Significant leveraging at the company level, which exposes it to 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 July 2018 was Rs 5,682 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. The refinancing risk is especially high for the Rs 554 crore NCD as it is due for repayment as a single bullet by 31st March 2019 as per the amended terms.

Liquidity position

EPDPL had current account balances of Rs 220 crore apart from mutual fund investments of Rs 21 crore as on March 2018. Undrawn debt limits (excluding capex project loans) were around Rs 300 crore as on July 2018. Though this provides some liquidity cushion, the company's debt servicing obligations are substantially high. Moreover, certain loans are in the form of corporate loans or acquisition loans against projects which have not been launched yet; hence operational cash flows are not available from such projects to support the associated loan. Hence, the company will be dependent on refinancing to a large extent. The ability of the company to refinance is strong, backed by the value of its investment portfolio and land bank held.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	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)
Parent/Group Support	Not Applicable
Standalone	The ratings are based on the standalone financial profile of the company.

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.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	269.9	379.5
PAT (Rs. crore)	-281.2	-337.6
OPBDIT/OI (%)	-126.0%	-77.2%
RoCE (%)	0.0%	1.6%
Total Debt/TNW (times)	2.9	4.4
Total Debt/OPBDIT (times)	-15.7	-22.5
Interest Coverage (times)	-0.8	-0.5
NWC/OI (%)	349.6%	405.4%

Status of non-cooperation with previous CRA: Not available

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	
				Dec 2018	Jan 2018	Dec 2017	Jul 2017	Jan 2017	July 2015	
1 NCD – I	LT	554.00	203.60	[ICRA]BBB-(SO) (Stable)	[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	LT	109.00	21.94	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)		[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(Stable)	-	
3 Term Loan	LT	1000.00	586.00	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)		[ICRA]BBB-(SO) (Stable)	-	-	
4 Non-fund based ¹	LT	(100.00)	-	[ICRA]BBB-(SO) (Stable)	-	-	-	-	-	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE003L07028	Non Convertible Debentures – I	April 2014	10.56% (IRR)	March 2019	203.60	[ICRA]BBB-(SO) (Stable)
INE003L07044	Non Convertible Debentures – II	December 2014	12.00%	December 2021	21.94	[ICRA]BBB-(SO) (Stable)
NA	Term Loan – I	December 2016	11.75%	March 2029	600.00	[ICRA]BBB-(SO) (Stable)
NA	Term Loan – II	December 2016	12.50%	December 2022	400.00	[ICRA]BBB-(SO) (Stable)
NA	Non-fund based ¹	-	-	-	(100.00)	[ICRA]BBB-(SO) (Stable)

Source: Embassy Property Developments Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Corrigendum

Document dated December 31, 2018 has been corrected with revision as detailed below:

Revision on page number 4, under Rating history for last three years: Date for the rating in FY2016 has been revised to Jul 2015 from Jun 2015.

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