

Press Release

Mac Charles India Limited

February 20, 2023



Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	320.00	ACUITE BB+ Stable Assigned Provisional To Final	-
Non Convertible Debentures (NCD)	300.00	ACUITE BB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	620.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.300.00 Cr of Non-Convertible Debentures (NCDs) of MAC Charles India Limited (MCIL).

Acuite has downgraded and converted its provisional long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) to final rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 320.00 Cr of Non-Convertible Debentures (NCDs) of MAC Charles India Limited (MCIL).

The conversion of the rating from provisional to final reflects satisfactory completion of the following documentation as required by Acuite:

- > Appointment of a SEBI registered debenture Trustee
- > Receipt of the executed trust deed
- > Receipt of confirmation from trustee regarding the compliance with all the terms and conditions

The final term sheet has not been received however the Company has undertaken that the term sheet as per the debenture trust deed is final. Acuite notes that the terms of issue as per debenture trust deed and indicative term sheet do not match in respect of security cover and project details. The indicative term sheet stated a security cover to be maintained of 1.5 times at all times which has been reduced to 1 times as per the debenture trust deed. Further, the scope of the project has also changed, the project Embassy Hub which was earlier planned to be developed on a land parcel of 30.86 acres, has increased to ~70 acres.

Rationale for Rating Downgrade

The rating downgrade is on account of significant change in project plans leading to slower than anticipated project progress and expectations of requirement of incremental funding support. During the last review, MCIL had two ongoing projects - Project Embassy Zenith and Project Embassy Hub. Embassy Zenith was earlier estimated to be constructed at a total project cost of Rs.658 Cr with a developable area of 5.61 Isf, which now stands reduced to 3.85 Isf with a total estimated cost of Rs.380 Cr. Embassy Hub on the other hand was earlier

planned to be developed on 30.86 acres of land parcel at a total project cost of Rs. 1310 Cr with a construction plan of 3 buildings of 1.5 mln sq ft. The project as per the original schedule was to achieve ~36% completion by December, 2022. However, as on date, the land acquisition for the project is still ongoing and therefore Acuite expects time overrun for Embassy Hub. The cost incurred stands ~Rs.160 Cr till February, 2023. MCIL now plans to increase the developable area at The Embassy Hub by another ~10 acres at an incremental cost of Rs.100 Cr over the near to medium term. This is expected to lead to incremental land acquisition requirements which may lead to higher time and funding requirements against the previously envisaged estimates.

The rating continues to factor in the established presence of Embassy group in the commercial real estate segment, prime locations of the projects and moderate financial risk profile. The ratings are constrained by susceptibility to cyclical and regulatory risks impacting real estate industry and high project risks associated with the on-going projects.

About the Company

Mac Charles (India) Limited (MCIL) is in the business of real estate development and wind power generation. The company is incorporated in 1979 and based out of Bangalore and is promoted by Embassy Group which holds 73.41 percent of the shares of MCIL through Embassy Property Developments Private Limited. The company owns commercial real estate assets in Bangalore, Kerala and 5 wind power generation units in Bellary. Currently, the Company is redeveloping the erstwhile Le Meriden Hotel site in CBD Bangalore into a landmark A-Grade commercial office building under the project named – Embassy Zenith. MCIL, has recently initiated another project under its 100 percent wholly owned subsidiary named 'Embassy Hub projects Private Limited' to acquire land parcels (a mix of outright acquisition and JDA) followed by construction of commercial space for leasing. The Company has divested its stake in one of its 100 percent wholly owned subsidiary - Airport Golfview Hotels & Suites Private Limited which operated Airport Golf View Hotel in Cochin.

Embassy Group was incorporated in 1993 by Mr. Jitendra Virwani. The group is one of the leading real estate developers. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the Embassy group owns properties in the hospitality segment as well. It also has an extensive land bank of 1000+ acres across India. The operation spread across Indian and international markets that include Bangalore, Chennai, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group from time to time partners with several established market players like, Blackstone, Warburg Pincus, Taurus Investments as well as different financial institutions to execute projects.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of MCIL to arrive at the credit rating.

Key Rating Drivers

Strengths

- **Established presence of Embassy group in the commercial real estate segment**

Mac Charles (India) Limited (MCIL) is in the business of real estate development and wind power generation. The company is promoted by Embassy Group which holds 73.41 percent of the shares of MCIL through Embassy Property Developments Private Limited. The Embassy group is among the largest commercial real estate developers in the country. EPDPL is engaged in development of commercial, residential and retail projects. The group has business parks in locations such as Bangalore and Pune, with upcoming projects in Chennai, and Trivandrum. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the

Embassy Sponsor owns properties in the hospitality segment. Acuite believes, with the expertise of the group in handling similar projects in the past will help the company in on time completion of project without any cost overruns.

- **Premium location and amenities of both the projects**

Embassy Zenith project is located at Sankey Road in heart of Bangalore city overlooking the golf course on the erstwhile Le Meriden Hotel site in CBD Bangalore. The project is expected to fetch monthly rentals of Rs.240 per square foot once completed. Existing rentals in the area is in the range of Rs.190 per square foot per month in the locality. Embassy Hub project is too located in North Bangalore, a few kilometers away from the airport. Both the developments are proposed to be an ultra- premium state of the art development with superlative specifications and high-end infrastructure. Acuite believes, the premium nature of the project and its prime location will benefit the company in realizing the value of the projects.

- **Moderate financial risk profile**

MCIL's financial risk profile was comfortable as observed from stable net worth, comfortable debt protection metrics, and moderate coverage indicators. The net worth rose to Rs.402.11 Cr as on March 31, 2022 from Rs. 291.14 Cr as on March 31, 2021, due to accretion of profits to reserves. The company generated a profit of Rs. 90.95 Cr from sale of its property and Rs. 21.5 Cr of profit from its stake sale in subsidiary entity. The debt protection metrics were comfortable with gearing in the range of 0.30 times to 0.41 times and total outside liabilities to net worth in the range of 0.51 times to 0.59 times over the past three years ended FY22. The coverage indicators were moderate with DSCR and interest coverage in the range of 0.15 times to 13.26 times and 0.17 times to 20.81 times over the past 3 years ended FY22. The coverage indicators were lower in FY20 due to Rs 13.80 Cr losses from discontinued operations.

Weaknesses

- **Susceptibility to cyclical and regulatory risks impacting real estate industry**

Embassy Group and the project is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is currently witnessing moderation in demand on account of large amounts of unsold inventory, unleased commercial spaces and high borrowing costs this along with the pandemic has mounted pressure on the industry resulting in lower sales. This is primarily attributable to the high property prices due to persistent rollover of bank debt which has had a cascading effect on the overall financing costs. Given the high degree of financial leverage the high cost of borrowing inhibits the real estate developers' ability to reduce prices. Further, the industry is exposed to regulatory risk which is likely to impact players thereby impacting its operating capabilities.

- **High Project Risk**

The company has appointed EPDPL as the turnkey contractors for the project – Embassy Zenith and EPDPL has considerable experience in handling similar projects. EPDPL also has experience in finding tenants for similar projects thereby mitigating offtake risk to an extent. Embassy Zenith has achieved ~50 percent of its financial progress as on February, 2023 whereas Embassy Hub projects is at very nascent stage wherein the land acquisition is still under progress.

ESG Factors Relevant for Rating

MCIL undertakes multiple CSR activities and has an existing CSR policy. In FY2022, the company has supported for implementing holistic health and hygiene program with focus on preventive healthcare, nutrition and sanitation at government schools in Bangalore. Further, Embassy Group is engaged in multiple ESG initiatives including supporting government schools in Bangalore, public spaces clean up in Bangalore, installation of segregated garbage bins in Bangalore CBD, transformation of 101 under fly-over pillars, among others. Additionally, all the projects undertaken by Embassy Group have IGBC Green Gold Certification or higher.

Embassy group has an active engagement towards improvising education, sustainable infrastructure, community engagement and corporate connect. The group aims to facilitate students of Government Schools with a safe learning environment for skill development through holistic interventions in Education, Health and Infrastructure. It has supported more than 85 government schools through educational and infrastructure interventions, build around

10 new government schools amongst others.

Embassy group drives positive change by providing infrastructure-based solutions with new frontline services for environmental sustainability and community healthcare, it promotes grassroot results to global problems in the communities it is a part of. Embassy group is a proud partner of TAICT's (The Anonymous Indian Charitable Trust) Ecogram Waste Management Project, which aims to catalyse communities to develop and implement strategic infrastructure for sustainable environmental management. It has completed several initiatives of public spaces clean-up, installation of segregated garbage, mobile cancer detection unit amongst others.

Rating Sensitivities

- > Any delay in project construction resulting in cost overruns
- > Higher-than-expected reliance on debt in future
- > Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc.

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the company was adequate as observed from sufficient net cash accruals, compared to the loan repayments for the company, funding tied up to the project and group's ability to refinance debt when required. The Zenith project cost which is reduced to Rs.380 Cr has already raised NCDs of Rs.350 Cr (Rs.325 Cr listed NCDs and Rs. 25 Cr unlisted NCD) and balance Rs. 30 Cr is funded from lease deposits or capital contribution from promoters. For Embassy Hub, the Company has raised Rs.320 Cr of listed NCDs. The redemption of all the NCDs can be done as one single repayment or after lock in period with no fixed schedule giving the company flexibility to arrange funds for the repayment. Acuite believes, considering the experience of MCIL and EPDPL in executing similar projects, chances of cost overruns or liquidity crunches are low in the medium term.

Outlook: Stable

Acuite believes that MCIL will maintain a 'Stable' outlook over medium term on account of established market position of Embassy group in the real estate industry and nature of project. The outlook may be revised to 'Positive' in case the company generates higher than expected cash flows and achieves its project completion as per scheduled timelines. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position on account of escalation of project costs, which may further increase the dependence on refinancing of debt.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	21.98	8.63
PAT	Rs. Cr.	111.03	1.07
PAT Margin	(%)	505.22	12.37
Total Debt/Tangible Net Worth	Times	0.30	0.41
PBDIT/Interest	Times	20.81	1.47

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 May 2022	Proposed Non Convertible Debentures	Long Term	320.00	ACUITE Provisional BBB- Stable (Assigned)
	Non Convertible Debentures	Long Term	300.00	ACUITE BBB- Stable (Reaffirmed)
26 Jul 2021	Non Convertible Debentures	Long Term	300.00	ACUITE BBB- Stable (Assigned)
15 Jul 2021	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE Provisional BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE435D07011	Non-Convertible Debentures (NCD)	22 Jul 2021	16.00	23 Jul 2025	Simple / Complex	300.00	ACUITE BB+ Stable Downgraded
Not Applicable	INE435D07011	Non-Convertible Debentures (NCD)	23 Aug 2022	Not Applicable	22 Aug 2026	Simple / Complex	320.00	ACUITE BB+ Stable Assigned Provisional To Final

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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