

Emami Realty Limited (Formerly Emami Infrastructure Limited)

December 24, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------------------|------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------------|
| Long Term Bank Facilities | 100.00 (Reduced from 160.00) | CARE BBB; Stable (Triple B; Outlook: Stable) | Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) |
| Total Bank Facilities | 100.00 (Rs. One Hundred Crore Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Emami Realty Limited (ERL) takes into account improved sales velocity of Emami City, Kolkata and Emami Nature, Jhansi and receipt of final regulatory approval for Emami Aerocity, Coimbatore by Coimbatore Municipal Corporation paving way for accelerated sales in future. The rating revision also takes note of reduction in project level debt through improved sales and collection from projects.

The rating continues to derive strength from the rich experience of promoters with established brand image of the Emami Group, demonstrated track record of Group support, association with renowned architects & consultants, favorable location of the projects with major regulatory approvals in place and availability of substantial land bank with the group.

The ratings, however, continue to be constrained by high leverage even after merger with real estate business of Oriental Sales Agencies (India) Private Limited (OSAPL) and reduction in debt levels, inherent project execution risk associated with the ongoing projects, moderate reliance on customer advances, high albeit reduced exposure in group entities, regulatory risks, susceptibility of the real estate market to economic cycles and highly fragmented real estate industry.

Improvement in sales velocity of Emami Aerocity post receipt of final approval, continued sales velocity in Emami Jhansi project, continued traction in two new launches of Business Bay and Aastha, reduction in group exposure leading to improvement in capital structure remain key rating monitorables.

Rating Sensitivities

Positive factors

- Significant improvement in capital structure with overall gearing below 3.0x on sustained basis.
- Significant increase in velocity of sales and collection over Rs.650 cr from own projects during H2FY22 and FY23 from the projects.

Negative factors

- Slower than expected bookings and construction progress leading to slower collection from own projects.
- Significant increase in projected cost leading to deterioration in cash coverage.
- Any significant increase in exposure in group companies.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established brand image of the Emami Group

ERL belongs to the Emami group. Emami Group is a leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, and real estate sectors. The flagship company of the group, Emami Ltd., has presence in personal and healthcare products. The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka, are qualified professionals with business experience of over four decades. The financial flexibility available to the group improved over the last year with sales of group's power and cement business to reduce the promoter level debt and the pledge of promoter shareholding. Consequently, the outstanding loan against pledge of the promoter's shares reduced from Rs.3,400 crore as on June 30, 2020 to Rs.1,496 crore as on August 18, 2021. The pledge of shares stands at 31.42% of the promoter shareholding as on September 30, 2021 (41.74% as on October 29, 2020)

Association with renowned architects & consultants

The group is associated with renowned architects, contractors and consultants who have proved their mettle in the field. These architects and consultants have sound track record and execution capabilities and have been associated with the Emami group from many years and have done the architecture and other work for many of its completed residential as well as commercial projects. Further, the company also has a dedicated in-house marketing team constituting of qualified professionals to target its customers. Strong brand image, construction quality and efficient marketing strategies have enabled the company to witness quicker bookings and fund major part of the cost by way of customer advances.

Major regulatory approvals already in place for the Ongoing Projects

Land has already been acquired/ available and building permit has been obtained for all the ongoing projects. The company has received most of its major approvals from the appropriate authority(s) which includes police department, airport authority, urban land ceiling, height clearance, microwave, water, electricity, fire & emergency, environmental clearance.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Favourable location of the Projects, equipped with all the modern amenities

The on-going projects are coming up in the areas which are easily accessible to and are in the proximity of grocery stores, hospitals, educational institutes, shopping malls, tourist attractions, railway / metro stations, airport and other basic and essential requisites of our day to day life. Further, all the mode of transport viz; bus/AC bus, auto rickshaw, hand rickshaw, taxi are easily available from that locality.

The ongoing residential projects are equipped with all the modern facilities/ amenities which includes clubhouse with gymnasium, indoor games, banquet hall, squash court, swimming pool, café with lounge etc. The project will also have mini soccer and cricket field, landscaped gardens, walking and jogging tracks, and 24-hour power back-up through DG sets and security along with professional level international maintenance agencies.

Improvement in sales velocity in majority of the existing and recently launched projects albeit continued saleability risk with moderate reliance on customer advance

Under ERL, at present, the company has 3 ongoing projects and 3 completed projects having unsold inventory, with an aggregate saleable area of 79.29 Isf. Out of the completed projects having saleable area of 44.59 Isf the company has already sold 78% of the area by Sep 30, 2021 at a consideration of Rs.1557 crore and collected Rs.1498 crore as customer payments. Emami City has seen high sales velocity with average of over 12 units being sold every month in FY21 and the remaining 70 unsold units as on Sep 30, 2021 are expected to be completely sold by March 2022. Further, sales have been in line with the projections in Emami Tejjomaya Phase 1, which is almost completely sold with only 2 unsold units as on Sep 30, 2021.

The sales of Emami Aerocity, Coimbatore had been slow in past, with the company being able to sell only around 50% of the saleable area by Sep 30, 2021 due to delay in receipt of Final approval (project completed in Sep 2019) owing to which the buyers of the plot were unable to start construction process. However, the company has obtained the Final Approval in September 2021, post which the sales velocity is expected to improve substantially. The company has sold 11 plots in the project in Oct 2021. The company is also in the process of buying out 47% stake of the partner entity in the project for ~Rs.100 crores which will be payable equally in next 4 quarters.

In the ongoing projects, the company has sold ~58% of the saleable area in Emami Jhansi (post increase in scope of the project from 203 to 453 units). The remaining cost of ~Rs.67 crores is expected to be met out of customer advances. The company expects to complete the project by December 2023.

In Business Bay, the company has received positive traction and sold ~51% of the saleable area in the first month of launch and collected Rs.5 crores as advance. Around 27% of the projected cost of the project (Total cost of Rs.130 crore) are expected to be financed from customer advances. However, seeing the better-than-expected response from the project, the management expects higher portion of the cost to be met out of customer advances. In Aastha, the company has sold around 14% of the saleable area in first month of launch. Around 32% of the projected cost of the project of Rs.390 crore, is expected to be met from customer advances. Both the new projects are expected to be completed in 4-4.5 years. Reliance on customer advances, exposes the project to risks/ concerns like liquidity issues, project delays and cost over-runs.

Availability of substantial land bank with the group

The group has substantial land bank with estimated market value of ~Rs.1695 crores (other than for ongoing and completed projects), held by various entities within the group, providing further comfort in relation to security of the debt outstanding.

Key Rating Weaknesses

Project construction risk

Currently, the company has three on-going projects namely Emami Nature, Jhansi, Emami Business Bay and Emami Aastha. Emami Nature Jhansi is a township wherein the company plans to sell 453 plots. The company has already spent 67% of the total estimated cost till Sep 30, 2021 and expects the project to be completed by Dec 2023.

The two new projects Business Bay and Aastha were launched in October 2021 and ~27% of the estimated cost (including land cost) have already been expended till Sep 30, 2021 with construction in initial stages. The projects are expected to take around 4-4.5 years to complete.

There have been instances of slower execution of the projects in past. However, the strong brand image of the group and its successful track record in execution of real estate projects in the past mitigates the risks attached to timely completion of the project to an extent.

Financial risk profile marked by high debt level and high exposure in its group companies albeit improvement in net worth after amalgamation with demerged real estate unit of Oriental Sales Agencies (India) Private Limited (OSAPL) and substantial reduction in debt levels

Financial performance for real estate companies generally remains erratic with the same peaking up near to project completion/delivery and declining substantially in other years. ERL's financial performance over the last three years is characterized by high debt levels mainly comprising of term loans from banks and financial institutions (including loans against shares of Emami Limited), non-convertible debentures and inter-corporate loans (mainly from the group companies). Part of the funds have been used to finance various real estate projects being implemented by ERL and its SPVs and part of the funds have been used to finance the group entities through loans and advances. Consequently, overall gearing ratio has remained high during the last three years.

However, the total debt taken by ERL has reduced substantially from Rs.2684 crores as on March 31, 2020 to Rs. 1659 crores as on March 31, 2021. Secured external debt (from banks, financial institutions and NCDs) taken by the company (including loans against share of Emami Limited to fund group entities) has been bought down from Rs.1064 crores as on March 31, 2020 to Rs.426 crore as on March 31, 2021 and further to Rs.281 crores by September 30, 2021, partly through improved sales and

collection from projects and partly by way of infusion of funds by promoters. Given the divestment of equity stake in Emami Cement Limited by the promoters during FY21, the promoters have reduced debts in the group companies. Other debt from group companies (by way of unsecured loans and ICDs) though have been reduced from Rs.1620 crores as on March 31, 2020, stand high at Rs.1233 crore as on March 31, 2021.

As an effect of the amalgamation with demerged Real Estate Undertaking of Oriental Sales Agencies (India) Private Limited (OSAPL), the net worth of ERL has improved from Rs.48.63 crore to Rs.111.28 crore as on March 31, 2020 and further to Rs.121.61 crore as on March 31, 2021.

The overall gearing of the company though improved to 13.64x on March 31, 2021, as against 24.12x on March 31, 2020, still remains at higher levels. The company has further raised Rs.100 crores in October 2021 as loans against shares to fund group companies. The company plans to raise further Rs.70 crore against Emami Aerocity to buyout 47% stake of partner entity. Also, project funding of Rs.70 crore for Business Bay and Rs.150 crores for Aastha are under discussion with lenders. Apart from the ongoing projects the company has debt of Rs. 68.50 crore as on Sep 30, 2021 against Montana Project in Mumbai, which has now been transferred to promoter entities in lieu of reduction of debt from the group companies. The debt is being repaid through an escrow arrangement made with lenders of Montana project, wherein 15% of the collection from the project in the JV will flow into the account of ERL and used for payment against the debt.

The other project debts are planned to be repaid through project cash flows. Escrow and sweep in arrangement have been made with the lenders for the loan taken by the company against the respective projects which provides comfort for repayment of debt obligations. The financial risk profile of ERL requires continuous cash flows which will be primarily utilised for debt reduction.

As articulated by management, the servicing for loan against shares of Emami Limited, including interest obligations, will be undertaken from funds received from group companies.

Regulatory risks

Real estate projects are prone to varying degrees of uncertainty, both at the macro-level, which affects the economy as a whole and at the sector level. The projects are prone to local, state, and national laws and regulations (governing acquisition, construction and development of land, etc.). Failure to comply with such rules and regulations often lead to delays or in the worst case, complete closure of the project; all of which may lead to a complete or partial loss of capital invested.

Susceptibility of the real estate market to economic cycles

Real estate sector is highly susceptible to economic cycles. Health of an economy in terms of GDP, employment data, manufacturing activity, prices of goods, etc. affects the value of real estate in such a way that when economy is sluggish real estate sector is affected in a similar way.

Liquidity - Adequate

As on Sep 30, 2021, the company has repayment obligation of Rs.136 crore in H2FY22 (including repayment obligation of Rs.16.7 crore for loan against shares taken to fund group companies). The expected project cash flows would be sufficient to meet the above mentioned debt repayment obligation. Moreover, as articulated by management, the repayment for loan against shares amounting to Rs.16.7 crore would be met by group companies and the same has been demonstrated in the past. The company also has free cash and liquid investments of Rs.44 crore as on Sep 30, 2021. Also, all the major debts have sweep-in mechanism attached to them, which allows the company to repay its debt systematically along with collections made.

Analytical approach: *Standalone along with linkages with Emami Group*

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology-Real Estate Companies](#)

[Rating Methodology-Factoring Linkages](#)

About the Company

Emami Realty Limited (ERL), formerly known as Emami Infrastructure Limited (EIL), incorporated in 2008 and part of the Emami Group of Kolkata is engaged in real estate projects in residential, commercial and retail sectors. In 2008, Emami Limited demerged its real estate undertakings comprising Emami Realty Limited and subsidiaries coupled with the real estate undertaking of Zandu Pharmaceuticals Works Limited. In 2016, the wholly owned subsidiaries, ERL and Emami Rainbow Niketan Private Limited were amalgamated with EIL. In July 2017, EIL's board approved the merger of Zandu Realty Limited (ZRL) with EIL. ZRL, engaged in the business of real estate has been amalgamated with EIL with effect from April 01, 2017 as per order dated May 04, 2018. The company's name was subsequently changed to 'Emami Realty Limited' in October 2018.

At present, the company has three ongoing projects namely Emami Nature Jhansi, Emami Business Bay, Kolkata and Emami Aastha, Kolkata, with an aggregate saleable area of 34.7 lakh sq. ft. (Isf). Further the company has inventory in 3 completed projects of Emami City, Kolkata, Emami Tejomaya, Chennai and Emami Aerocoty, Coimbatore.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 |
|------------------------------|----------------|----------------|--------|
| Total operating income | 1,218.26 | 267.49 | NA |
| PBILDT | 292.30 | 230.09 | NA |
| PAT | -48.91 | 2.88 | NA |
| Overall gearing (times) | 24.12 | 13.64 | NA |
| Interest coverage (times) | 0.79 | 0.91 | NA |

A: Audited

A-Audited

Status of non-cooperation with previous CRA: Not Applicable**Any other information: Not Applicable****Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4**Annexure-1: Details of Instruments / Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|------------------------|------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Term Loan-Long Term | | - | - | - | 100.00 | CARE BBB; Stable |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|----------------------------------------|-----------------|--------------------------------|------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------------|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (02-Jul-19) | 1)Provisional CARE A-(SO); Stable (27-Nov-18) |
| 2 | Term Loan-Long Term | LT | 100.00 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (21-Dec-20) | - | - |

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|--------|---------------------|------------------|
| 1 | Term Loan-Long Term | Simple |

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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