Emami Realty Limited

December 21, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	160.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Facilities	160.00 (Rs. One Hundred Sixty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Emami Realty Limited (ERL) derives strength from rich experience of the promoters with established brand image of the Emami Group, demonstrated track record of Group support in the past leading to major reduction in external debt in H1FY21, pickup in sales velocity of Emami City in the recent past, 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 are however constrained by substantial losses booked in Emami Tejomaya Phase I in FY20 and optimistic price assumption considered for upcoming Phase II (to be launched in H1FY22) vis-à-vis current market rate, slower sales velocity in Emami Aerocity, Coimbatore due to delay in receipt of final approval, slower execution and sales from Montana project, high debt to market cap and high leverage even after considering proposed merger of real estate business of Oriental Sales Agencies (India) Private Limited with ERL, inherent project execution risk associated with the ongoing projects, moderate reliance on customer advances, high exposure in the group entities and highly fragmented real estate industry. Receipt of final approval for Emami Aerocity project leading to improvement in sales velocity for this project, continued improvement in sales velocity in Emami City project, timely completion and sales in Montana project and improvement in capital structure remains 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 to Rs.800 cr during H2FY21 and FY22 from the projects.

Negative factors

- Substantial delay in bookings leading to slow collection to under Rs.550 crore during H2FY21 and FY22.
- Significant increase in projected cost leading to deterioration in cash coverage
- Any significant investment 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 few months. The company's promoters sold its power and cement business to reduce the promoter level debt and the pledge of promoter shareholding. Consequently, the outstanding loan against pledge of promoter's shares reduced from Rs.2,408 crore as on July 29, 2019 to Rs.1,145 crore as on October 29, 2020. The pledge of shares stands at 46.50% of promoter shareholding as on September 30, 2020 (46.8% as on June 30, 2019).

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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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.

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.

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 one on-going project (being developed by ERL) namely Emami Nature, Jhansi, with most of the necessary approvals in place with more than ~78%% of the project cost (including land cost) being expended.
Further, ERL has entered into JVs with 'Sheth' group in Mumbai for construction of Montana in which ERL will have a profit-sharing of 50%. The company has advanced Rs.300 crore loan for Montana, to the developer entity of the project as part of its equity commitment which will be refunded back to the company on the completion of the projects in addition to the profit from the projects. Also, the group has invested Rs.20 crore in Avante project being developed under Sheth group, wherein amount will be refunded with interest on completion of the project.
Montana project consists of 4 towers out of which one is expected to be completed by Feb 2021 and 2nd by Sep 2021, 3rd by Dec 2023 and 4th by Dec 2025. The company has already incurred 67% of the total cost (including land) on the project as on Sep 30, 2020.
Construction of the project Avante was temporarily halted since Jan 2019 due to restriction imposed on construction by the government on projects within 500 meters of a naval colony which led to delay and stoppage of work. However, the restriction has been lifted since Nov 2020 and work on the project has restarted. The company has already spent around 40% of the project cost (including land cost) on the project as on Sep 30, 2020 and expected to be completed by June 2022.
There has 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.

Saleability risk with moderate reliance on customer advance
Under ERL, at present, the company has one ongoing projects and 4 completed projects having unsold inventory, with an aggregate saleable area of 57.51 lsf. Further, Montana project in Mumbai has a saleable area of 16.32 lsf. Out of the total saleable area of 74.24 lsf (44.75 lsf of completed projects and 29.48 lsf of on-going projects), 56% or 41.55 lsf has been sold till Sep 30, 2020.
Out of the completed projects having saleable area of 44.75 lsf the company has already sold 68% of the area at a consideration of Rs.1364 crore and collected Rs.1244 crore as customer payments.
In the ongoing projects, the remaining cost of Emami Nature (~Rs.25 crore) is projected to be financed through undrawn balances of sanctioned debt. In Montana, around 29% of the total cost is expected to be financed through customer advances thereby exposing the project to risks/ concerns like liquidity issues, project delays and cost over-runs. Till Sep 30, 2020, the company has collected only 26% of the customer advances planned for the project expenses.
The sales of Emami Aerocity, Coimbatore remains slow with the company being able to sell only 43% of the plots due to delay in receipt of Final approval (project completed in Sep 2019) owing to which the buyers of the plot are unable to start construction process. This has led to reduction in sales velocity of new plots and slower collection of sold

receivables. As per the management the final approval is expected by December-end 2020/January 2021, after which the sales are expected to improve.
Although sales velocity has been slow in Emami City in the past even after receipt of completion certificate in April 2019, it has picked up since September 2020 with the company selling ~20 units per month. As on Sep 30, 2020, the company has sold around 82% of saleable area with 220 units remaining to be sold out of 1355 units (around 180 units remaining to be sold as on November 30, 2020). The company is selling ~20 units per months since September 2020 and expects to complete sales of all outstanding units within next three quarters.
The company also has around 20 units pending to be sold in Emami Tejomaya Phase 1 as on September 30, 2020 (project completed in Oct 2019). The Phase I project has incurred substantial losses in the project owing to new market for the company leading to slower sales and delayed execution. Slower sales velocity is on account of construction of large ticket sized flats which had lower saleability in the area. The company plans to launch Phase 2 of the project, wherein more of smaller ticket flats will be constructed. However, pricing assumption seems to be optimistic given current market rates.
The company has sold around 39% of units in Montana (72% units in tower 1 and 48% in tower 2 which are expected to be completed in 2021) as on Sep 30, 2020.
The overall sales were also affected to a certain extent by to Covid-19 pandemic and nationwide lockdown called by state and central governments to combat the spread of virus. Sales have been gradually improving since August 2020 post lifting of restrictions throughout the country.

Financial risk profile marked by high debt level and high exposure in its group companies albeit major reduction of external debt during H1FY21 through unsecured loans from group companies
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. The company had total overall debt of Rs.2453 crores as on March 31, 2020, including external debt of Rs.1064 (secured debt from banks, financial institutions and NCDs) and Rs.1389 crores from related parties (unsecured loans, ICDs and working capital borrowings from group entities) leading to a gearing of 50.44x. However, given the divestment of equity stake in Emami Cement Limited by the promoters during the year, and the eventual reduction of debt by promoters in the group companies, the company has reduced its external debts substantially to Rs.422 crores as on Sep 30, 2020 by way of infusion of funds from the promoters during H1FY21 in the form of additional unsecured loans (total debt from related parties stood at Rs.2328 crores as on Sep 30, 2020). The overall gearing of the company stood at 35.46x as on Sep 30, 2020.
Further, the company plans to prepay the debt against its completed project Emami City (Rs.98.41 crore outstanding as on Sep 30, 2020) by Dec 2020 and raise inventory funding against the project.
The external debts are planned to be repaid through project cash flows (except for Rs.55 crores loan against shares which will be repaid through promoters funds). There is also an escrow arrangement with the lenders for the loan taken by the company against all its projects. The total revenue from the projects flows through the escrow account, wherein the funds are first utilised for the debt repayment and then the surplus is used to other purposes. If there is a shortfall in the escrow account against the repayment obligation, the same is met through fund infusion by group companies. Similar escrow arrangement has also been made with lenders for 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 same provides comfort for repayment of debt obligations.

Low net-worth of the company leading to higher gearing
The net worth of the company reduced considerably from Rs.152 crores as on March 31, 2019 to Rs.49 crores as on March 31, 2020 majorly owing to losses incurred in Emami Tejomaya Phase 1. This led to deterioration of gearing from 16.73x as on March 31, 2019 to 50.44x as on March 31, 2020.
The company plans to reduce unsecured loans taken from promoters by transferring loans and advances given by ERL to land owning entities of the group to the extent of ~Rs.1100 crores by March 31, 2021. This is in addition to reduction in external debt by the company (as discussed above) would result in reduction of overall debt in the books of ERL to ~Rs.1500 crores by March 31, 2021 (Rs.400 external debt and Rs.1100 unsecured debt from group entities).
Further, the real estate division of Oriental Sales Agencies (India) Private Limited ('OSAPL') which is the land owing entity of Emami City, is in process of merging with ERL (appointed Date being April 1, 2019). This will result in improvement of the ERL's net worth from Rs.49 crore to ~Rs.106 crore as on March 31, 2020. Further, with the booking of income during FY21 from various completed projects, the company expects the networth to be around Rs.180 crore as on March 31, 2021. This would result in improving the gearing ratio of the company substantially to ~8.33x as on March 31, 2021.

Risk inherent to Real Estate Sector
The property market is negatively related with the interest rate cycle. High interest rate discourages buyers from borrowing to finance real estate purchases and also increases the cost of construction for developers. The banks have taken a cautious approach and have reduced their exposure to the sector and hence, most developers now rely on their private sources for the project funding.

Impact of Covid-19 pandemic

During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments. Consequently the construction (only ongoing project during March 2020 was Montana in Mumbai) and sales activities were impacted at all locations. The operations have been commenced in a phased manner since end of April 2020 after conforming to the guidelines of the regulatory authorities. The same impacted the construction progress and sales velocity to a certain extent. The construction currently is at its full capacity with labour available as per requirement and sales have been picking up gradually. As per the management, the company's capital and financial resources remains intact as the company has sufficient capital to meet its business requirements. However, exact impact on profitability is yet to be determined as the pandemic still continues.

Liquidity - Adequate

The company had repayment obligation of Rs.271.22 crore (in relation to external debts of Rs.1064 crore as on March 31, 2020) for FY21. Repayment for H1FY21 already done and repayment obligation for H2FY21 stands at Rs.183 crore. The same would be funded through additional debt of Rs.160 crores as inventory funding towards Emami City project and the remaining through project cash flows (Rs.81 crores projected to be collected in H2FY21). The collection stood at Rs.124 crore during April 2020 to October 2020 for projects under ERL (excluding Montana project). 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. The company had taken moratorium for some of the outstanding debts for various projects during the Covid-19 pandemic which was repaid in September 2020.

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 two ongoing projects with an aggregate saleable area of 29.48 lakh sq. ft. (lsf) which are being developed at a total project cost of Rs.1,713.0 crore. Montana project is being developed by 'Sheth group' (Flagship company Sheth Developers Private Limited rated ICRA BBB-; Stable in January 2020) with whom ERL has entered into Joint Venture (JV) where Sheth will be the developing partner. The residential project will have a saleable area of 16.32 lsf, in which ERL will have a profit-sharing of 50%. The company has advanced Rs.300 crore loan to the developing SPV Lohitka Properties LLP (Rated ICRA BBB-; Stable in March 2020), for Montana project which will be refunded back to the company on the completion of the project.

Brief Financials (Rs. crore)- Standalone	FY19 (A)	FY20 (A)
Total operating income	193.34	1071.16
PBILDT	267.85	202.90
PAT	0.73	-111.57
Overall gearing (times)	16.73	50.44
Interest coverage (times)	1.00	0.55

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	160.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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	160.00	CARE BBB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company : NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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