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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Embassy Property Developments Ltd

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Embassy Property Developments Ltd (Embassy). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The IPO grade assigned to Embassy reflects its strong position in the Bengaluru real estate development market based on an established brand name supported by high quality of construction. The company has a proven track record of execution, having so far developed ~25 mn sq.ft. of commercial, residential and retail space till date. The company is a market leader with 32% share in Bengaluru's commercial real estate space. Of ~14 mn sq.ft. of owned commercial assets, Embassy has an economic interest of 5.3 mn sq.ft. which provides a steady cash stream. Embassy's clients include IBM, Fidelity, Cognizant, Yahoo and Microsoft who have leased out office space in Embassy's commercial projects; this provides strong cash flow visibility.

The grade has also factored in the large low-cost land bank of ~1,326 acres, of which the company has plans to develop ~818 acres (as per the project status) or ~90 mn sq.ft. over the next few years. This low-cost land bank is expected to cushion the effect of lower lease rentals in the upcoming commercial projects during the downturn. The grade has also taken into account the professional management team and good corporate governance practices followed by the company.

The grade is moderated by the fact that 78% of Embassy's future projects are concentrated in Bengaluru, which exposes it to a single-location risk. Also, since a huge portion of these projects would be commercial in nature, the company is likely to post lower RoE (return on equity) until the assets are monetised.

The company posted consolidated revenues of Rs 3.7 bn with an EBITDA margin of 48.6% and net margin of negative 0.9% during 11MFY10. The net worth of the company as on February 28, 2010 was Rs 14.7 bn and the corresponding debt was Rs 15.7 bn with RoE of negative 0.2%.

About the company and the issue

Embassy Property Development Limited commenced real estate operations in 1993 under the name of Virwani Builders. The promoter has been in the industry for close to three decades. The company has developed 24.5 mn sq.ft. of commercial, residential and retail space till date; the focus has been on the development of commercial space primarily for the IT/ITES sector. After having concentrated on Bengaluru for years, the company is now looking at other geographies like Pune, Chennai and Coimbatore. It has also forayed into the international market with the commencement of operations in Malaysia and Serbia.

Embassy is promoted by Mr Jitendra Virwani, who owns 100% equity stake in the company by way of 0.4% direct ownership, 91.9% through JV Holding Private Limited - in which he owns 99.99% equity stake - and 7.7% through JV Family Trust.

The IPO proceeds of Rs 24,000 mn will be utilised to finance the construction and development of the company's (including its subsidiaries and associates) ongoing projects, pre-payment or repayment of its loans (including its subsidiaries and associates) and to meet general corporate purposes.

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