Embassy Developments Ltd — Jun 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline / Transitionary **One-line:** The thesis remains a high-stakes transformation play, where immediate dilution and merger delays are being bridged by a "Three Pillars of Liquidity" strategy (Land sale, Sky Forest OC, and London receivables) to manage a heavy combined debt load.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Pre-sales of □1,383 Cr for FY22 vs 9M run-rate of □1,058 Cr.	□
Earnings Quality	Moderate	Heavily dependent on project completion cycles (Sky Forest OC) and non-core land monetization.	□
Guidance Confidence	Neutral	Combined entity sales target of □2,500–3,000 Cr depends on successful integration and branding.	□
Management Credibility	Improving	Sachin Shah (ex-Embassy REIT) provides institutional rigor; however, extension of promoter debt repayment is a legacy drag.	□
Business Quality Signal	Improving	Pivot toward a "finished inventory" sales model (□5,300 Cr combined surplus) reduces execution risk.	□
Key Q&A Exchange	Q#4 + London Debt	Promoter extension until Dec 31, 2022, is the primary governance friction point.	□
The Street's Primary Anxiety	Debt & Dilution	High combined debt (□6,500 Cr) and the "low-price" QIP raising questions on capital discipline.	□
Capital Cycle Stage	Consolidation	Transitioning from asset-heavy legacy structure to the Embassy platform.	□
Margin / Return Ratio Trajectory	Stable	Worli realizations holding above □30k/sqft on carpet basis; interest costs declining.	□
Pricing Power	Stable	Limited premium inventory in Worli and Bengaluru allows for price maintenance despite macro headwinds.	□
FCF Conversion & Quality	Strong	Collections (□1,281 Cr) vs Construction spend (□435 Cr) indicates healthy cash generation from existing sales.	□
Competitive Moat Signals	Widening	Post-merger land bank (3,600 acres) is unmatched in the listed space; shift to Embassy brand is a key intangible upgrade.	□
Balance Sheet Strength	Adequate	Net debt at □1,005 Cr (IBREL standalone); combined entity debt is high but manageable via inventory liquidations.	□
Working Capital Efficiency	Improving	DSO focus via □2,820 Cr in sold receivables; office move to WeWork reduces fixed overheads.	□
Mgmt Guidance Track Record	First Entry	New management team under Sachin Shah; credibility is being established post-merger announcement.	□
Key Vulnerability / Red Flag	Repayment Risk	The £60M (~□620 Cr) receivable from Sameer Gehlaut is a non-operating dependency for FY23 liquidity.	□
Management Tone	Confident/ Institutional	Focus on master-planning, institutional governance, and "churning" land assets into cash.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The receipt of the Occupation Certificate (OC) for Sky Forest is a major de-risking event, unlocking □1,032 Cr in net surplus. The disposal of the Sector 106 Gurgaon land parcel for □580 Cr demonstrates the ability to monetize the vast land bank for debt reduction. The induction of a professional management team (Sachin Shah and K.G. Krishnamurthy) is successfully decoupling the business from the legacy Indiabulls "promoter" image. * **Negatives:** The merger completion has been pushed to July-August 2022 due to NCLT delays, extending the period of strategic limbo. The □865 Cr QIP resulted in significant dilution at what investors perceived as low valuations. The 9-month extension granted to Sameer Gehlaut for the £60M London receivable, while legally binding, remains a key "governance hangover" point that analysts are closely monitoring. * **Forward Watchpoint:** The final NCLT Chandigarh order (expected within weeks) and the actual arrival of the £60M promoter repayment by Dec 31, 2022, are the two binary events that will dictate the stock's re-rating potential.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT not available — numbers from concall*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Presales (□Cr)	326	First entry	77% (Value)	↑	Growth driven by Mumbai (84% of value). FY22 total: □1,383 Cr.
Pre-tax Operating CF (□ Cr)	333	First entry	14%	↑	Collections for full year at □1,281 Cr.
Realization/sqft (□)	6,520	First entry	32%	↑	Value growth (77%) outpaced area growth (34%) due to Mumbai mix.
Revenue Potential Locked (□Cr)	7,161	First entry	First entry	→	Net surplus from OC/near-complete and ongoing projects.
Revenue (□Cr)	273	-23.3%	-23.3%	↓	FY22 Revenue: □1,541 Cr. Lower due to project recognition timing.
PAT (□Cr)	Not in doc	First entry	First entry	-	Focus remained on EBITDA (□58 Cr in Q4).
Land Bank (acres)	3,328	First entry	First entry	→	Excludes 106 land sold. Nasik is the largest chunk (1,400 acres).
D/E Ratio (x)	0.40	First entry	First entry	→	Gross debt □1,310 Cr; Net debt □1,005 Cr.
Cost of Borrowing (%)	10.7%	First entry	First entry	↓	Interest charges fell 52% YoY for the full year.
Construction Spend (□ Cr)	134	35% (FY)	22%	↑	Spend-to-collection ratio at 40% for the quarter.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Residential (Mumbai)	Not in doc	First entry	High	↑	Dominant	Contributes 84% of pre-sales value; Sky Forest OC received.
Residential (NCR/ Other)	Not in doc	First entry	Moderate	→	Drag	Sector 104 refunds complete; relaunch planned for late 2022.
Commercial	Not in doc	First entry	High	→	Future Core	42.5 msf Embassy pipeline is the long-term rental/REIT play.
Land Disposal	580	First entry	N/A	↑	One-off	Sector 106 sale; ₹80 Cr advance received.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Sales Velocity	Combined entity to achieve ₹2,500–3,000 Cr annual sales.	Needs ~₹750 Cr/quarter; currently IBREL is at ~₹350 Cr. High dependency on Embassy assets.	First entry	Moderate
Guidance	Debt Reduction	Reduce combined debt from ₹6,500 Cr to ~₹3,500 Cr by March 2023.	Needs ₹3,000 Cr inflow; matched by London (£60M), Land (₹500 Cr), and Sky Forest (₹1,000 Cr).	First entry	Moderate
Guidance	Merger Timeline	Completion by July–August 2022.	Pending only Chandigarh NCLT final order; process is in "final weeks."	Delayed from June	Low
Guidance	New Launches	Launch BLU Annex (Worli), Sec 104 (Gurgaon), Thane Ph-II in early 2023.	Estimated GDV > ₹5,000 Cr from these three launches.	First entry	Moderate
Strategy	Land Bank	Monetize or convert 3,000+ acre land bank into faster cash flows.	Nasik (1,400 acres) targeted for industrial/manufacturing use.	106 Sale done	Low
Balance	Liquidity	Shore up balance sheet midway through merger.	₹865 Cr raised via QIP; funds used for debt retirement and customer refunds.	Delivered	Low

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Manish Agarwal (JM)	Merger Delay	Outlook	Why have merger timelines slipped beyond June?	Management attributed delays to NCLT processes being slowed by Covid in Jan-Feb; Bengaluru is approved and Chandigarh is in final stages. Completion is now expected in weeks, which is the final regulatory hurdle for the "New Embassy" platform.	None	4.0	Clear and quantified
2	4.5	Manish Agarwal (JM)	Debt Profile	Financials	How will the debt look post-merger for the combined entity?	Combined debt starts at ₹6,500 Cr but is offset by ₹5,500 Cr of finished inventory surplus; target is to halve debt in 12-24 months. De-leveraging is highly dependent on liquidating the 5.4 msf of ready/OC-received inventory.	None	4.0	Logical bridge
3	4.0	Manish Agarwal (JM)	Sales Target	Outlook	What is the sales velocity expectation for FY23?	Target is ₹2,500–3,000 Cr/year primarily from ready inventory; new launches in 2023 would be in excess of this. This represents a significant step-up from IBREL's	None	3.5	Ambitious

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						standalone ₹1,383 Cr FY22 sales.			
4	5.0	Manish Agarwal (JM)	London Receivable	Governance	What is the status of the £60M due from the erstwhile promoter?	Sameer Gehlaut has paid 2/3rds already but requested a 9-month extension to Dec 31, 2022, due to Covid delays in his UK project. Extension includes a 5% GBP interest rate, but this delay is a clear liquidity and governance overhang for the current fiscal.	None	2.5	Evasive on risk
5	3.5	Samar Sarda (Axis)	Branding	Strategy	Will new launches only happen under the Embassy brand post-merger?	Management confirmed launches like BLU Annex and Thane Ph-II will wait for the merger to use the Embassy brand. The brand transition is central to achieving the targeted premium realizations in MMR and NCR.	None	4.0	Specific timeline
6	3.5	Samar Sarda (Axis)	Approvals	Business	Does the BLU Annex project need consent from existing flat owners?	Management confirmed they already have approvals for residential development on that land parcel. This removes a	None	4.5	Verifiable

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						potential legal bottleneck for the ₹3,000 Cr GDV launch.			
7	4.0	Jeevan Patwa (Sahasrar)	Debt Paydown	Financials	How does the QIP and land sale money affect the debt bridge?	QIP (₹865 Cr) + Land Sale (₹500 Cr) + London (£60M) + Sky Forest (₹1,000 Cr) creates a ₹3,000 Cr liquidity pool. This pool directly offsets the ₹6,500 Cr opening debt, aiming for a ~₹3,500 Cr net debt level by March 2023.	None	4.0	Clear Waterfall
8	3.0	Ritwik Sheth (One-Up)	Fixed Costs	Financials	What are the estimated fixed overheads for the merged entity?	Estimated at ₹175–200 Cr per year including employee expenses and overheads. Management is already cutting costs by moving to WeWork locations to enhance "flexibility and independence."	None	3.5	Directional
9	4.0	Ritwik Sheth (One-Up)	Commercial Strategy	Strategy	What is the plan for the 42.5 msf of commercial land in Bengaluru?	Management intends to build 1.5 msf/year but may convert some portions to residential or plotted development to churn capital faster. The goal is to avoid sitting on "raw material" for	None	4.0	Shift in strategy

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						too long, prioritizing faster cash flow over long-term rental accumulation.			
10	3.0	Sudarshan Mall (Dhunseri)	Dilution	Financials	Why do a QIP at such low levels when cash visibility was good?	Management argued they needed to "shore up the balance sheet" and seize a market window before macro conditions worsened. This "short-term pain" was deemed necessary for the liquidity runway required to integrate the two companies.	None	2.5	Defensive
11	3.5	Jeevan Patwa (Sahasrar)	Platform	Strategy	How will the Ivanhoe Cambridge platform (80:20) be used?	Merged entity will use the platform to develop office assets using partner capital, earning management fees and promotes. This asset-light model (similar to Godrej) allows growth without over-leveraging the IBREL balance sheet.	None	4.0	Institutional
12	3.0	Abhinav Bhandari (Nippon)	Cash Outgo	Financials	What is the total construction and debt outgo for the next 15 months?	Construction spend is ~900 Cr for the year; debt repayment/ refinancing needs are	None	3.5	High run-rate req

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						~₹964 Cr. Management expects cash flows from ready inventory sales to cover these obligations.			
13	3.0	Anirudh Agarwal (AAA)	Cost Inflation	Macro	How is raw material cost escalation impacting ongoing projects?	Impacts are limited as many projects are at late-stage finishing where contracts are already in place. Management believes the recent spike has settled and won't materially erode the ₹5,300 Cr combined surplus.	None	3.5	Optimistic
14	3.0	V.P. Rajesh (Banyan)	RERA Defaults	Governance	Are any projects currently in default of RERA deadlines?	Past projects like Enigma and Centrum missed deadlines; management is settling with RWAs and handing over facilities management to Embassy Services. This is an active "clean-up" of legacy NCR liabilities.	None	4.0	Honest cleanup

PATTERN FLAGS & SENTIMENT Analysts were primarily focused on the "Liquidity Bridge"—questioning why equity was raised at low prices (QIP) and why the former promoter was granted an extension on his debt. Management's posture was institutional and transparent, pivoting every concern back to the "Net Surplus" from finished inventory. The skepticism regarding the merger delay seems to have been neutralized by the specific "weeks not months" guidance for the Chandigarh NCLT.

Analyst Sentiment Verdict: Analysts appear "cautiously optimistic" but remain skeptical of the promoter's £60M repayment timeline. The primary friction point was the QIP dilution. Credibility improved due to the presence of Sachin Shah, who provided granular detail on project-level cash flows that was previously missing from IBREL's disclosure. The greatest risk remains the timely arrival of non-operating cash (London and Land sale) to service upcoming debt maturities.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Merger Timeline | Completion by June 2022 | July-August 2022 | 2-month delay | Minimal; regulatory bottleneck only. | | London Receivable | Due by March 31, 2022 | Dec 31, 2022 | 9-month extension | Moderate; indicates liquidity reliance on legacy promoter. | | Sector 104 Gurgaon | Active ongoing project | Project "did not move"; refunds issued | Pivot to re-launch | Execution reset in a key market. |

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5. WHAT CHANGED vs PRIOR QUARTER

Comparison vs 9MFY22 context

What Changed	Prior Quarter	This Quarter	Direction
Asset Status	Sky Forest awaiting OC	Sky Forest OC Received	↑ De-risked
Capital Base	Standalone Equity	Post-QIP (₹865 Cr raised)	↓ Diluted / ↑ Liquidity
Debt Strategy	IBREL standalone focused	Combined De-leveraging plan (₹6.5k Cr → ₹3.5k Cr)	↑ Clarity
Promoter Status	Reclassification pending	Reclassification approved; SEBI filing done	↑ Governance
Liquidity Pipeline	Land term sheet signed	₹80 Cr advance received; closure in 90 days	↑ Execution
Operational Independence	Shared legacy offices	Moved to WeWork (Mumbai/Gurgaon)	↑ Institutionalization
Launch Pipeline	"Planned"	Masters-planning for BLU Annex / Juhu Q4 FY23	↑ Visibility

STOP HERE.