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## Rating Rationale for Ackruti City Limited's proposed secured Non Convertible Debenture (NCD) Issue of INR 75 crores

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**NCD Issue Rating: BWR BBB-**

**Outlook : Stable**

Brickwork Ratings (BWR) has assigned BWR BBB- (Pronounced BWR Triple B Minus) Rating for **Ackruti City Ltd.**'s proposed ₹ 75 crores secured NCD issue. 'BWR BBB-' stands for an instrument that is considered to offer **moderate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has factored, inter alia, Ackruti City Limited's experience in real estate, focus on participation in Slum Rehabilitation Schemes, and the shift towards residential projects in line with current market dynamics. The rating is however constrained by unfavorable coverage ratios, high level of outstanding debtors, stretched working capital cycle, few instances of delay in interest payments and the current situation in the real estate industry.

### **Ackruti City Limited (ACL):**

Incorporated in 1989 by Mr. Hemant Shah and Mr. Vyomesh Shah, ACL is a construction and real estate group involved in the development, sale and lease of commercial, residential, retail, and industrial property. It operates in several real-estate verticals such as Residential, Commercial, IT Parks, SEZs, SRA, Biotech Parks, Retail and Hotels. Its operations are focused primarily in Western India - Mumbai, Pune, Thane, Ahmedabad, Vadodara and Surat. In Mumbai, the company has a major presence in Central & Western suburbs covering ~80% of their area under construction in the city. ACL executes projects both on its own and through Joint ventures with other developers.

ACL's business model includes the development of Slum areas (under Slum Rehabilitation Schemes) and projects undertaken in PPP with State Governments. This has enabled the company to acquire land at competitive prices. Till date the Ackruti group has completed construction of 12.51 million sft. of which 7.84 million sft. is under Slum Rehabilitation Schemes.

ACL currently has approximately 67.68 million sft. under its management from various projects including joint ventures and public-private partnerships. Of this, ACL's share is 37.95 million sft. After the downturn of 2008-09, ACL changed its focus from commercial and retail space towards residential projects, which now account for 47% of its projects.

ACL executes some of its projects through joint development agreements with other real estate players. As of December 2010, ACL's share of the total area under management is 37.95 million sft. and of this, 44% is under residential projects, 23% is under commercial projects and the rest is shared by IT/SEZ, Hospitality and Retail.

### **Management Profile:**

Ackruti City is backed by management experience of almost 3 decades in construction and engineering. It is led by Mr. Hemant Shah, who is the Chairman and Mr. Vyomesh Shah, the Managing Director of ACL. We have taken cognizance of fact that in Dec 2010, SEBI, by an ex-parte interim order banned the company's promoters from dealing in their own shares. However the management has confirmed that this order does not bar the company from raising any further capital either through rights issue, FPO or QIP. Further, the promoters have been permitted by the Securities Appellate Tribunal (SAT) vide its order dated 15<sup>th</sup> Dec 2010 to pledge the shares of the company as security for raising loans by company and also for topping up against margin calls.

Two independent Directors, Mr. Shailesh Haribhakti, CA and Mr. P. H. Ravikumar, Ex MD and CEO of NCDEX resigned from the Board of Directors with effect from March 11, 2011. In their place, the BoD has appointed Mr. Abhijit Datta and Mr. Arvind Kumar Joshi, effective March 16, 2011. Mr. Datta has served in State Bank of India for 37 years and has held several senior positions. He is currently the chairman of Asset Reconstruction Company of India. Mr. Joshi, CA, brings to the Board vast experience in strategic and management consultancy services and financial restructuring.

### **NCD Issue:**

ACL plan to raise ₹ 75 crores by way of an NCD issue, for general corporate purposes and for augmenting working capital. The debentures would have a tenure of 4 years, with bullet repayment at the end of the term. The coupon rate is 12% payable quarterly.

The NCD issue is proposed to have multiple securities as listed below:

1. First charge on Yantti Buildcon RLDA Project
2. Pledge of ACL's 100% shareholding in Yantti
3. Pledge of ACL's 49% shareholding in Joynest Premises Pvt. Ltd. (Residential Project in joint development with Naman Developers in Chembur, Mumbai)
4. Post dated cheques towards coupon payment and total redemption amount
5. Personal guarantee by Promoters
6. Charge on payment account (i.e. 49% of Joynest Premises Pvt. Ltd. cash flows will be placed in escrow account)

A SEBI registered debenture trustee will be appointed by the issuer to complete all formalities concerning obtaining/creation of securities as mentioned above and monitoring the same for the benefit of and protection of the interests of the investors in the proposed NCD issue.

**Yantti Buildcon Project:**

Yantti Buildcon Private Limited is a Special Purpose Vehicle (SPV) 100% owned by Ackruti City. It was floated on 31st Dec, 2009 for the purpose of executing a Railway Land Development Authority (RLDA) project in central Bangalore, involving the construction of 10 new railway quarters. In lieu, ACL will receive License Rights for construction of retail, hotel and commercial spaces on subject land measuring 2.5 acres near the City Railway Station, Bangalore, and Operation and Maintenance of the same for 30 years from the date of the Development Agreement. The project envisages approximately 0.30 million sft. of saleable area.

**Key financial information:**

ACL's net worth as on FY10 is ₹ 1478.6 Crores and borrowings stand at ₹ 1305.5 Crores. The Company had a reported net profit of ₹ 165 Crores. The current adjusted D/E (equity adjusted for goodwill and part of contingent liabilities) stands at 1.03 times.

During FY09 the top-line and bottom-line of ACL suffered due to global turmoil and company's business model which was tilted towards commercial projects. In FY09 company had significant inventory outstanding, comprising mostly of incomplete projects; however, with revival in the

overall economy and ACL's changed focus towards residential projects, the company has tried to clear up this inventory to a certain extent and thus reported sales increase of approximately 46% in FY10 over FY09. The reported PAT declined by 36.6% in same period; this was mainly due to higher reported construction cost, higher outgo on interest cost and tax expenses.

Average Creditor Days for FY10 have increased to 62 from 52 in FY 09 and Average Collection Period for FY10 and FY09 is 243 and 258 days respectively. This shows stretched working capital cycle for ACL. Sundry Debtors increased from ₹ 110.2 crores in FY08 to ₹ 451.7 crores in FY09, and ₹ 320.8 crores in FY10.

### Quarterly Performance:

In the recent Q3FY11 results ACL saw 12.8% decline in consolidated net profit at ₹ 67.80 crores as compared to ₹ 77.77 crores in the same period last year. Similarly, the consolidated revenue, at ₹ 214.08 crores showed a marginal decline of 2.4% over Q3FY10. However, consolidated revenue for nine months grew by 64% at ₹ 555.37 crores over the corresponding period in the previous year and consolidated net profit, at ₹ 165.5 crores, showed a jump of 41% over that of the corresponding period. During Q3FY11, ACL sold around 0.23 million sft. in Mumbai city.

### Key Financials:

**Table 1: Abridged Consolidated Balance Sheet**

Year Ended	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10
<b>(in ₹ Cr)</b>				
<b>Liabilities</b>				
Share Capital	66.7	66.7	66.7	72.7
Reserves	437.9	729.5	979.8	1405.9
<b>Networth</b>	<b>504.6</b>	<b>796.2</b>	<b>1046.5</b>	<b>1478.6</b>
Total Secured Loan	282.0	552.0	848.9	1081.6
Unsecured Loan	205.9	277.2	208.0	223.97
<b>Total Borrowings</b>	<b>487.9</b>	<b>829.2</b>	<b>1056.9</b>	<b>1305.5</b>
Current Liabilities	92.2	214.7	238.3	316.0
<b>Total Liabilities</b>	<b>1084.9</b>	<b>1842.6</b>	<b>2341.8</b>	<b>3100.2</b>
<b>Assets :</b>				
Net Block	89.1	104.4	65.0	141.1
Capital Work-in-Progress	0.2	10.5	33.1	98.9
Goodwill	-	-	162.4	96.9
Investments	274.9	227.8	302.5	356.3
Current Assets	720.7	1500.1	1768.3	2402.0
Deferred Tax Assets	-	-	10.4	5.0
<b>Total Assets</b>	<b>1084.9</b>	<b>1842.6</b>	<b>2341.8</b>	<b>3100.2</b>

Source: Company Data

**Table 2: Abridged Income Statement**

(in ₹ Cr)

Income Statement	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	9MFY11
<b>Net Sales</b>	<b>189.5</b>	<b>439.8</b>	<b>397.1</b>	<b>579.6</b>	<b>555.4</b>
Expenditure	84.1	65.9	25.4	197.1	216.5
<b>Operating Profit</b>	<b>105.4</b>	<b>373.8</b>	<b>371.7</b>	<b>382.6</b>	<b>338.9</b>
Depreciation	6.2	6.9	5.7	7.1	7.2
EBIT	99.1	366.9	366.0	375.4	331.7
Other Income	9.1	36.0	57.7	38.5	22.8
Interest	20.0	61.5	140.2	168.0	156.3
<b>PBT</b>	<b>88.3</b>	<b>341.3</b>	<b>283.5</b>	<b>245.9</b>	<b>198.2</b>
Tax	10.7	41.9	23.2	80.9	29.0
<b>PAT</b>	<b>77.6</b>	<b>299.4</b>	<b>260.3</b>	<b>165.0</b>	<b>169.2</b>
PAT on Income %	40.9%	68.1%	65.5%	28.5%	NM
Increase in sales	-	132.1%	-9.7%	46.0%	NM
Increase in PAT	-	286.0%	-13.1%	-36.6%	NM

Source: Company Data

**Table 3: Key Ratios \***

	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10
Debt / Equity Ratio	1.14	1.19	1.28	1.03
Interest Cover (x)	2.86	4.35	1.81	1.48
Debt Service Coverage Ratio	N.A	0.60	0.98	0.51
Net Worth (₹)	504.6	796.2	1046.4	1478.6
NPM (%)	40.9%	68.1%	65.5%	28.5%
ROCE (%)	9.9%	22.5%	17.4%	13.5%
Net Cash Accruals / Total Debt	0.09	0.19	0.13	0.07
Current Ratio	1.21	1.23	1.59	1.84

\* Calculated using adjusted figures as per BWR workings

### Rating Outlook:

ACL's profit margins are benefitted by its low cost of land, which it acquires in lieu of SRA projects executed for the government. However, most of the residential saleable area that ACL acquires by way of SRA projects will materialize in FY12 onwards. Till then, the Company is dependent on sale/lease of commercial space for its actual revenues. ACL's performance is dependent on the real estate industry's performance in highly volatile global economic conditions, sustainability of margins and efficient handling of SRA projects undertaken by it.

Analysts	Media
<p><b>Sameer Singhvi</b> , Lead Analyst <a href="mailto:sameer.s@brickworkratings.com">sameer.s@brickworkratings.com</a></p>	<p><b>Anitha G</b> <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a></p>
<p><b>Mridula Chordia</b>, Co-Analyst <a href="mailto:mridula.c@brickworkratings.com">mridula.c@brickworkratings.com</a></p>	<p><b>Relationship Contact</b></p> <p><b>K N Suvarna</b> <b>Senior VP – Business Development</b> <a href="mailto:kn.suvarna@brickworkratings.com">kn.suvarna@brickworkratings.com</a></p>

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