
Review Rating Rationale for Akarsh Residence Pvt. Ltd.'s Secured Non Convertible Debenture (NCD) Issue of ₹ 100 crore

NCD Issue Rating: BWR BB

Outlook : Stable

Brickwork Ratings has reaffirmed '**BWR BB**' (Pronounced BWR Double B) for Akarsh Residence Pvt. Ltd.'s (ARPL) issue of Secured Non Convertible Debentures (NCD) of ₹ 100 Crore (₹ One hundred Crore). ARPL is a SPV promoted by Adarsh Developers, a partnership firm, for the purpose of development and building luxury villas called 'Signature Villas' in Bangalore with an estimated cost of about ₹ 240 Crore (including finance charges).

Brickwork Ratings 'BWR BB' stands for an instrument that is considered to offer **Inadequate** credit quality in terms of timely servicing of principal and interest obligations. The rating factors, inter alia, current status of the Industry, underlying primary security for the NCD issue, revenue characteristics, funding risks and promoters track record.

BWR has relied on the audited financial results of Adarsh Developers for FY 2010, audited financial statements of ARPL for FY 2010 and quarter ending September 2010, projected financial figures of ARPL, information and legal opinion about the ownership of the land on which the project is to come up and other data/information provided by ARPL and the promoters.

Background:

Akarsh Residence Pvt. Ltd. is a Special purpose vehicle (SPV) promoted by Adarsh Developers, to fund its new luxury Villa project named "Signature Villas" at Doddakannahalli Village, Varthur Hobli in Bangalore. The equity holders in the SPV are:

- Mr. B. M. Jayeshankar (99.98%)
- Mrs. Sudha Shankar (0.01%)
- Mr. B. M. Karunesh (0.01%)

Adarsh Developers is a partnership firm, engaged in residential and commercial real estate development in Bangalore since 1988. The concern, incorporated as a proprietary business was converted to partnership firm in 2000. Mr. B M Jayeshankar, is the founder and the Managing partner with stake holding 99.95% in the firm. The firm enjoys a good reputation in the market

for quality construction of apartments, villas, office and retail place and Software Tech Park etc. At present, it has different projects under various stages of completion worth about ₹ 3500 crore. These include residential, office spaces and Software tech parks mainly Adarsh Nest, Adarsh Court, Adarsh Hill, Adarsh Nivas, Adarsh Vihar, Adarsh Residency, Adarsh Regent, Adarsh SJM Towers and Adarsh Opus.

As of now the Group has completed the development of around 4 mn sft of space with residential development comprising around 3.4 mn sft representing about 85% of total development.

Adarsh Group is currently developing 5 residential projects having a total saleable area of 4.67 mn sft, 1 SEZ project including a 5- star hotel having a built up area of 6.5 mn sft and two other hotels having a built up area of 0.76 mn sft in Bangalore. These projects are slated to be completed within next 2-3 years.

Financial Performance:

Akarsh Residences P Ltd (ARPL), the SPV was incorporated on Oct 22nd, 2009 with an equity capital of ₹ one Lac. Apart from the proposed 'Signature Villas' project, it has not been associated with any other project. For the purpose of Rating of the NCD issue of Akarsh Residences P Ltd., we have considered the performance of the promoter firm, Adarsh Developers.

As per unaudited results of ARPL for September ending 2010, borrowings stood at ₹ 100 Crore. Its Cash and Bank balance increased to ₹ 19.29 Crore in FY 2010. The company's Advances recoverable in cash increased to ₹ 71.77 Crore in September ending 2010 from ₹ 16,998 in FY2010. Expenses stood at ₹ 2.47 Crore and miscellaneous expenses (to the extent not written off) of ₹ 3.79 Crore in September ending 2010.

As per audited results of Adarsh Developers, for FY10 gross income has increased to ₹ 319.53 Crore as compared to ₹ 308.30 Crore in FY09. Income from sale of properties has decreased to ₹ 175.89 Crore in FY10 from ₹ 327.40 Crore in FY09. However, other operating income has increased substantially to ₹ 143.63 crore in FY10 from ₹ 0.19 crore in FY09. PBT has decreased to ₹ 59.65 Crore in FY10 from ₹ 129.61 Crore in FY09. Borrowings, including secured loan and

unsecured loan decreased 2% to ₹ 739.24 crore in FY10 from ₹ 754.31 crore in FY09. Total Debt to Equity has gone down to 2.60 in FY10 as compared to 2.66 in FY09 mainly due to increase in capital and reserves to ₹ 284.61 crore in FY10 from ₹ 283.61 crore in FY09.

Interest on NCD is payable on quarterly basis every year. However the operating Term sheet signed by the Company and the Investors provides that the Company can defer the payment if the free cash flow is not available, up to a period of three years and pay the accrued interest at the time of redemption of the NCDs. The company has informed that it has not achieved free cash flow and hence interest on the NCDs has not been paid yet.

Key financial ratios, Audited financial statements for the FY10 and FY09 are as per Annexure I, II and III.

Risk Factors

BWR has considered various risk factors like: Price Risk (Industry Risk), Project Completion Risk, Increase in Construction Costs, Funding gaps, Saleability of the villas. A major risk for the project could be funding gaps that may arise in case the mobilization of booking money falls short of the estimated amount. That would put pressure on the promoters of SPV to raise additional financial resources to avoid any delay in completion of the project and keep up their reputation. Any delay could also cause cost escalation. With high gearing ratio, in the current scenario, the promoter group may find it tough to raise funds in case of any such eventuality.

The rating of the NCD issue is constrained by the current sluggish scenario in commercial and residential real estate, price risk and funding risk in case of slowdown in advance sales.

Industry Outlook:

The demand for luxury homes, which was hit the hardest by the liquidity crisis during 2008-09, is also gathering pace, as per the latest media reports. Several developers have either reported higher enquiries for luxury apartments or have managed to sell more high-end residential flats in the December 2010 quarter, compared to the previous quarters. Real Estate demand is affected by interest rate movements. If the inflation rate and subsequently the interest rates rise significantly it will lead to higher cost for the real estate players compelling them to increase the prices which in turn affects the affordability of buyers and tapers demand. GDP growth for

FY2011 is expected to be encouraging at 8.5% and if the inflationary tendencies are kept under check, going forward, the growth rates could be expected to be stable and demand could sustain.

Analysts	Media
Mukesh Mahor mukesh.m@brickworkratings.com	Anitha G media@brickworkratings.com
Sumit Pol sumit.p@brickworkratings.com	Relationship Contact Jatin Vyas VP – Business Development jatin.v@brickworkratings.com +91 22 2831 1426
Phone: +91 80 4040 9940	

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Adarsh Developers			
Annexure I: Key Ratios			
Ratios	2010	2009	2008
Debt -Equity	2.60	2.66	4.45
Interest Coverage	1.66	2.69	3.95
DSCR	1.36	1.82	2.98
Net Worth (₹ In Crore)	284.61	283.41	150.16
Profitability Margin	23%	27%	28%
ROCE	15%	22%	31%
Net Cash Accruals	6%	12%	12%
Current Ratio	0.35	0.31	0.25

Adarsh Developers			
Annexure II: Balance sheet			
(₹ In Crore)	2010	2009	2008
Capital	284.61	283.41	150.16
Reserves & Surplus	0.00	0.00	0.00
Loans and Advances			
Secured Loan	592.05	458.16	399.83
Unsecured Loan	147.19	296.15	268.24
Current Liabilities	378.54	407.61	515.97
Total	1402.39	1445.33	1334.19
Fixed Assets	77.78	91.09	74.97
Advances and Deposits	1191.29	1225.98	1128.58
Land	64.29	109.06	108.75
Advance to suppliers	8.03	14.88	19.90
Security Deposits	1.40	1.40	1.40
Deposits	8.74	7.72	3.44
Loan & Advances	1011.05	960.11	908.22
Sundry Debtors	97.79	132.81	86.87
Current Assets	133.33	128.26	130.64
Cash on hand	1.34	0.25	1.80
Bank Accounts	45.00	2.46	6.61
Work in Progress	86.99	125.55	122.23
Total	1402.39	1445.33	1334.19

Adarsh Developers			
Annexure III: Profit and Loss Account			
(₹ In Crore)	2010	2009	2008
Income			
Sale of properties	175.89	327.40	298.27
Other sales	143.63	0.19	16.20
capital Expenses transferred	0.00	15.05	20.31
Interest received	1.09	0.00	0.13
Miscellaneous Income	0.03	0.00	0.41
Rent received	7.25	3.16	5.82
By Work in progress	86.99	125.55	122.23
Total	416.56	471.37	466.15
Expenses			
To Work in Progress	111.65	122.23	105.44
Materials	59.27	83.12	123.33
Labor	52.73	15.92	15.55
Constructions Exp	15.28	7.68	28.02
Admin Exp	23.43	32.95	25.43
Financial charges	91.78	77.20	42.17
Marketing Exp	1.59	1.45	1.26
Depreciation	1.00	1.12	0.99
Total	356.91	341.75	342.50
Profit before Tax	59.65	129.62	123.65
Tax on Income paid including deferred tax	19.20	-	41.30
PAT	40.45	-	82.35