

Rating Rationale

Brickwork Ratings assigns ‘BWR BBB (SO)’ (Outlook-Stable) to Arun Excello Homes Pvt. Ltd’s secured Non-Convertible Debentures Issue of ₹ 50 Crores with tenor of three years

NCD Issue Rating: BWR BBB (SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned ‘**BWR BBB (SO)** [Pronounced **BWR Triple B (Structured Obligation)**]’ Rating for Arun Excello Homes Pvt. Ltd. (“Arun Excello” or “The Company”) secured NCD Issue of ₹ 50 Cr with a tenor of three years. Instruments with this rating are considered to have **moderate degree** of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating has factored, inter alia, escrow of receivables and structured payment mechanism for repayment of NCDs’, performance of the company, experience of the promoters in real estate segment. The rating is however constrained by liquidity position of the company, current sluggish demand-supply dynamics in real estate sector and project completion risk.

BWR has essentially relied on the audited financial results of Arun Excello Homes Pvt. Ltd. for FY2011, present and projected cash-flow of the ‘Temple Green’ project, and other data /information provided by the company

Issue Details

Issuer	Instruments	Amount Rated ₹ Crore	Amount O/s ₹ Crore	Rating	Assigned/ Reaffirmed	Initial Rating Assigned on
Arun Excello Homes Pvt. Ltd.	NCD	50	NA	BWR BBB(SO) (Stable)	Assigned	October 2011

Background

Arun Excello Homes is part of the Chennai based Arun Excello group. The group is engaged in engineering and construction projects in southern India & Mauritius over the past 2 decades. The group has executed several projects in Mauritius for various Indian Oil & Gas companies.

Arun Excello Homes is engaged in construction of residential projects. The company’s ongoing projects in Chennai include Estancia, Temple Green, and affordable housing

projects (Behag I & II) at Mahabalipuram and Mohanam at Mambakkam. Estancia and Temple Green are integrated township spread over 82 acres and 103 acres respectively.

The company has rich experience in execution of industrial turnkey projects for various companies like Indian Oil, HPCL, Suzlon etc and also undertaken construction of auditorium, libraries etc for various universities in south India including the Sastra university at Thanjavur. The company is presently executing 3 projects for HPCL.

Management Profile

Mr. P Suresh, the Managing Director has nearly 30 years of experience in real estate and construction business. The whole time directors - Mr. A.M. Sundar, Mr. Rajaji and Mr. P. Karthikeyan are civil /mechanical engineers with over 2 decades of experience in the field.

Project Details

As per information shared by the company, project details are as follows:

The Temple Green project, located ~50 kms from Chennai , near SIPCOT Hitech SEZ, Oragadam Junction, is an integrated township over 103 acres. The township will include amenities like shopping arcade (including restaurants, pharmacy, Bank etc), schools, landscaped gardens, large green open spaces, amphitheatre, clubhouse etc. The project caters to residential needs of people employed in the various industries/ industrial parks in the area. Oragadam has rapidly emerged as a new industrial belt. The project is located on state highway 57 which connect the 2 industrial hubs of Oragadam and Sriperambudur. The project has planned over 103 acres of land.

Arun Excello's four group companies, viz; Arun Excello City Developers Pvt. Ltd., Arun Excello Projects Pvt. Ltd., Arun Excello Infra Projects Pvt. Ltd., and Arun Excello Enterprises Pvt. Ltd. own the land on which the Temple Green Project is being constructed. Arun Excello has obtained development rights for construction of the project from these 4 companies. The project is being implemented in five phases. Two phases will have apartments in the stilt + 4 format and 2 phases will have high rises with 18 floors each. Construction of Row houses is the 5th phase (currently under construction along with phase II). The project also includes construction of a school and commercial complex.

The company has completed phase I of the project (60000 sqft) and handed over the possession to customers. Phase II covering 10 lakh sqft (11 towers) was launched in June

2010 and is under construction. Of the 11 towers, 5 have been launched for booking and 80% of the apartments were sold by September 2011. The company also has constructed and sold town houses worth Rs. 20 crore. Five buildings under construction are expected to be completed by June 2013. The entire project is expected to be completed by 2018.

The NCD Issue & its Redemption:

The company raised Rs. 50 cr NCD (abovementioned issue) from Kotak Mahindra Prime Ltd. which has been utilised for general business purpose. The NCD issue has a tenor of 36 months from the date of allotment. The NCDs have a moratorium of 18 months and are repayable in subsequent six quarterly installments from the end of the 21st month. The NCDs have a call option after 12 months from date of allotment including a redemption premium of 2% on the NCDs called. The call option can be exercised and repaid out of independent self generated sources and no prepayment charges will be payable in the event of redemption from project receivables.

Madison India Real Estate Fund Ltd, a Mauritius based PE fund has invested Rs. 50 crs in the company between December 2007 and October 2010. The investment was made in the form of compulsorily convertible debentures (CCD). In August 2011, the group companies bought back part of the CCD's that were converted into shares. The company plans to provide an exit to Madison India Real Estate Fund for the balance by October 2013.

A SEBI approved Debenture Trustee ("IL&FS Trust Company Limited") has been appointed by the issuer with appropriate powers to protect the interests of the investors.

Security Cover

Securities available to the NCDs holders are as below:

- Mortgage (1st charge) of 66 acres of land (54 existing acres + 12 new acres to be purchased)
- First pari passu mortgage over the receivables of the Mortgaged properties (Exclusive escrow of cashflows from project)
- At the beginning of each month the company will submit a project cost estimate for the month, and funds will be transferred from the escrow account. The balance will be maintained in Fixed deposit or / liquid funds.

- All inflows in excess of Rs. 85 crores up to Rs. 185 crores, 50% of cumulative inflows will be used for repayment of existing lender debt and 50% will be utilised for project costs.
- Once cumulative inflows excess Rs. 185 crores, 50% shall be transferred towards NCD redemption. At any time after completion of 12 months from the date of allotment of NCDs, the company shall be entitled to exercise call option to use amounts generated for repayment of principal without any prepayment charges. (Please refer to the information memorandum of the debenture issue for further details.)

Financial Performance:

Arun Excello has total revenues of about ₹ 1.73 Lakh in FY11 as compared to ₹ 1.54 Lakh in FY10, mainly on account of interest received. However, company has reported nil expenses. Closing project expenses are ₹ (37.57) Cr in FY11 as compared to ₹ (7.79) Cr in FY10. PAT increased marginally to ₹ 1.15 Lakh in FY11 from ₹ 0.87 Lakh in FY10. Debt/equity ratio stood at 0.25 times in FY11 as compared to 0.14 times in FY10, as the total debt increased to ₹ 12.51 Cr in FY11 as compared to ₹ 6.58 Cr in FY10. However, DSCR remained in negative in FY11. Net-worth stood at ₹ 49.96 Crores in FY11.

Total revenues from the Temple Green Project are estimated at ₹ 3193 Crs of which Phase II (11 Towers) is estimated to be about ₹674 Crs with an estimated project cost of ₹ 501.40 Cr, over a period of six years from FY11 to FY16.

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. Any delay in project execution could also cause cost overruns. The Temple Green project (Phase II) has a gestation period of about six years from FY11 to FY16, however land for project has already been acquired and all major approvals and sanctions are in place for five towers of Phase II. Phase I has been completed and handed over to its customers and out of 1000 apartments (for 5 towers out of 11 towers) of the Phase II, 80% has been booked so far.

Rating Outlook

Arun Excello's Temple Green project (Phase II) has generated encouraging interest among customers. As per estimates shared, the company is likely to generate reasonable future cash flow. However rating is constrained due to liquidity position of the company, present sluggish demand in real estate industry and long gestation period of the project

which is to be executed in five phases over next 6-8 years. Present interest rate scenario also adds additional pressure on the company's performance. The company's ability to manage cost and time over runs and successfully sell the project will have a bearing on the rating.

Analysts	Media		
<p>Mukesh Mohar, Lead Analyst mukesh.m@brickworkratings.com</p> <p>Aunsha S, Co-Analyst aunsha.s@brickworkratings.com</p>	<p>Anitha G media@brickworkratings.com</p> <tr> <th colspan="2" data-bbox="808 617 1427 655">Relationship Contact</th> </tr> <p>R Ravichandran Head– Business Development ravichandran.r@brickworkratings.com</p>	Relationship Contact	
Relationship Contact			
<p>Phone: 1-860-425-2742</p>			

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Key Financials

Annexure I: Balance Sheet (Arun Excello Homes Pvt. Ltd.)

₹ Crore

As on March 31	2011	2010
SOURCES OF FUNDS		
Paid -Up Capital	0.05	0.05
Reserves	49.92	47.41
Networth	49.96	47.46
Secured Loan	12.47	6.54
Unsecured Loan	0.05	0.05
Total Borrowed funds	12.51	6.58
Total	62.49	54.05
APPLICATION OF FUNDS		
Net Fixed Assets	0.29	0.11
WIP	0.00	0.00
Current Asset, of which		
<i>Cash & Bank Balances</i>	7.35	3.23
<i>Inventories</i>	-	-
<i>Sundry Debtors</i>	-	-
<i>Loans & Advances</i>	87.05	51.63
Current Liabilities & Provisions	33.98	1.20
Net Current Assets	62.19	53.93
Total	62.49	54.05

Annexure II: Abridged Profit and Loss (Arun Excello Homes Pvt. Ltd.)

₹ Crore

As on March 31	2011	2010
Net Income	0.02	0.02
Purchase & direct Expenses	25.79	7.39
Selling & Admin Exp	2.13	0.17
Less: Closing Project Exp	-37.57	-7.78
Depreciation	0.05	0.03
Interest & Finance Charges	1.81	1.96
Total Expenses	0.00	0.00
PBT	0.02	0.01
Tax	0.01	0.00
PAT	0.01	0.01

Annexure III: Ratio Analysis (Arun Excello Homes Pvt. Ltd.)

	2011	2010
Debt Equity Ratio (x)	0.25	0.14
Interest Coverage (x)	1.04	1.21
Debt-Service coverage ratio (x)	-0.09	-2.30
Net-worth (₹ Crs)	49.96	47.46
Profitability margins (%)	NM	NM
Return on capital employed (%)	3.14	0.50
Net cash accruals to total debt (x)	0.01	0.01
Current ratio (x)	1.38	9.36