Rating Rationale for Era Housing & Developers (India) Ltd's structured secured redeemable Non-Convertible Debentures Issue of ₹ 100 Crore with maturity of upto 36 months

NCD Issue Rating: BWR AA– (SO)	Outlook : Stable

Brickwork Ratings has assigned **BWR AA-(SO) (Pronounced BWR Double A minus Structured Obligation)** for Era Housing & Developers (India) Ltd (EHDL) proposed Secured Redeemable Non Convertible Debentures (NCD) issue of ₹ 100 Cr having a tenor of 36 months, . The NCDs will also have PUT and CALL options. Brickwork Ratings' 'BWR AA- (SO)' stands for an instrument that is considered to offer **High** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has, inter alia, factored EIEL's infrastructure development experience and execution capability, strong order book which is tilted towards blue chip public sector clients; the pledge of unencumbered, fully paid up shares of Era Infra Engineering Limited (EIEL) as security and the structured mechanism to meet the obligations under NCD issue. The rating is however constrained by cost run and time run risks associated with infrastructure projects and the Company's weak working capital cycle.

BWR has essentially relied upon the audited financial results of EHDL and EIEL, projected financials and information and clarification provided by the issuer and its promoters, Term sheet outlining the structure of the deal, the legal Opinion, and collateral value analysis.

Background EHDL: EHDL, incorporated in Sept. 1995 by Mr H.S. Bharana for Civil Construction and Investment Purpose, is a promoter group company of Era Infra Engineering Limited (EIEL). Investment in various market instruments is the activity of EHDL. EHDL is 100% owned by promoters & their companies. Another promoter company Hi point Investment holds 33.22% stake in EHDL and EHDL holds 23.76% stake in EIEL of which 15.39% stake is already pledged.

Structure: EHDL is planning to raise an amount up to ₹100 crores by issue of structured secured Non-Convertible Debentures against pledge of their unencumbered fully paid shares of EIEL. The amount raised through the NCD issue is proposed to be used for the Company's general corporate purposes. The NCD will be secured by pledge of fully paid up freely transferrable equity shares of Era Infra Engineering Limited, having market value 2 times the issue size of the NCDs. Collateral Shares shall be valued at the current market price less a haircut of 10%. If the Collateral Cover falls below 1.8x, borrower/guarantor will within 2 day of such shortfall, pledge additional shares of Era Infra and/or prepay part of the Facility amount to increase the Collateral Cover at least to 2x of the outstanding Facility amount. No prepayment fee will be payable on such prepayments. If the price of the pledged share of Era Infra falls more than 30% from the Inception Price, or if the pledged shares constitutes or exceeds 50%[@] of the outstanding paid up equity capital of the Era Infra then the top up will be only by cash or prepayment of the Facility amount.

In the event the value of collateral increases to 2.5 times the outstanding obligations and such situation continues for 10 consecutive days, the Debenture Trustee may at the request of the issuer and pledgor, release part of the pledge in such a way that after such release the collateral value is not less than 2.25 time the outstanding Obligations of the Issuer.

The Debenture holders shall be entitled to require the Issuer or the Issuer shall have the right to exercise call /put option at the end of 12 months and thereafter every six months till the maturity date. **

Background EIEL: Era Infra Engineering Ltd (EIEL) has been promoted by Mr. H.S. Bharana who is having more than 25 years of experience in construction industry. The Company was originally incorporated on 3 September 1990 as a private limited company in the name of Era Constructions (India) Private Limited. EIEL is engaged in diverse construction activities including highways, roads, railways, airports, power projects, institutional and industrial complexes, multiplexes and residential buildings catering to the PSUs, the Private Sector and the Central Public Works Department.

The Company has completed ~200 projects in the last twenty years of operations. EIEL has serviced many highly regarded clients including the NTPC, Power Grid Corporation of India Limited, Indian Railway Welfare Organization, National Buildings Construction Corporation Limited, Public Works Department, Central Public Works Department National Dairy Development Board, National Hydroelectric Power Corporation Limited, etc.

EIEL has four strategic divisions

- **Construction and Contracts:** Executing contracts across the infrastructure development industry such as for highways, railways, power plants, urban infrastructure, high rise buildings. The division is concurrently foraying into new areas such as refineries, hydroelectricity, ports
- **EPC and international division:** Focusing on engineering, procurement, constructing and executing works Contracts. Fixed Term – On a turnkey and /BOQ basis. Long term basis – BOT / BOOT on annuity and revenue collection basis
- **Equipment management division:** Procurement of construction equipment, operations & maintenance of equipment base & leasing of equipment.
- **Ready mix concrete division:** Commercial manufacturing and marketing of custom-made Ready Mix Concrete (RMC)

Financial Performance

Era Housing & Developers (India) Ltd (EHDL):

The total income of EHDL stood at Rs. 1.67 Crore in FY 10 as against Rs. 0.72 Crore in FY 09. PAT increased from Rs. 0.66 Crore in FY 09 to Rs. 1.49 Crore in FY 10. EHDL's networth stood at Rs 127.29 Crore in FY 10 as against Rs. 119.87 Crore in FY 09. The borrowings for the FY 10 increased to Rs. 140.32 Crore from Rs. 125.81 Crore in FY 09.

Era Infra Engineering Ltd (EIEL):

Current order book of EIEL stands at Rs 10685.72 Cr, 75% of which consists of orders from Public sector, mainly from NHAI, NTPC, BHEL, RVNL, & AAI. Of this 7400 Cr of balance work is pending and company planning to execute that in 2-3 years. Dividing among sectors, order book has 31.5% of Infra Projects, 30.5% of social infra and building projects, 23% of power projects and 15% of industrial projects.

Net sales for FY10 were at 3409.82 Cr, vs 2371.21 Cr in FY09, representing growth of 43.80%. EBITDA and PAT grew at growth of a CAGR of 45.3% since FY07. EBITDA and PAT grew at 46.45% and 30.74% CAGR (Since FY07) respectively.

Era Infra is also planning to raise Rs 750 Cr through QIP and PE to execute various infrastructure projects. It has won three national highway projects in last one year on a BOT basis, in a 76:24 partnership with Russian firm OJSC-Sibmost. This will help in further deleveraging on balance sheet.

Key Financials: Era Infra Engineering Limited

	2007	2008	2009	2010
Income from core operations (in ₹ Cr)	763.02	1459.54	2371.21	3409.83
EBITDA (in ₹ Cr)	140.59	288.16	407.92	646.86
PAT (in ₹ Cr)	79.12	121.37	202.61	231.14
Depreciation (in ₹ Cr)	7.47	20.12	45.94	71.51
Capital Structure				
Net worth (in ₹ Cr)	304.96	489.58	878.89	1457.07
Debt Funds (in ₹ Cr)	811.75	1436.14	1796.35	2482.02
Debt/Tangible Equity (x)	4.93	3.20	2.22	1.70
Profitability				
EBITDA/Core Income (%)	18%	20%	17%	19%
PAT/Core Income (%)	10%	8%	9%	7%
ROCE (%)	12%	17%	15%	17%
Coverage				
Interest Coverage Ratio (x)	4.02	2.94	2.90	2.52
DSCR (x)	2.52	1.03	1.05	1.25
Liquidity				
Current Ratio (x)	1.56	1.19	1.30	1.94
Net Cash Accruals to total debt (%)	11%	10%	14%	12%

Source: Company Data

Era Infra Share Price Analysis:

Table 1: Key data

CMP *	228.1
1yr high	235.45
1yr low	98.5
Mkt Cap (Cr)	1319
Free Float	40%
3 mth volatility	17.05%
1 Yr volatility	48.75%

As on 17th August 2010

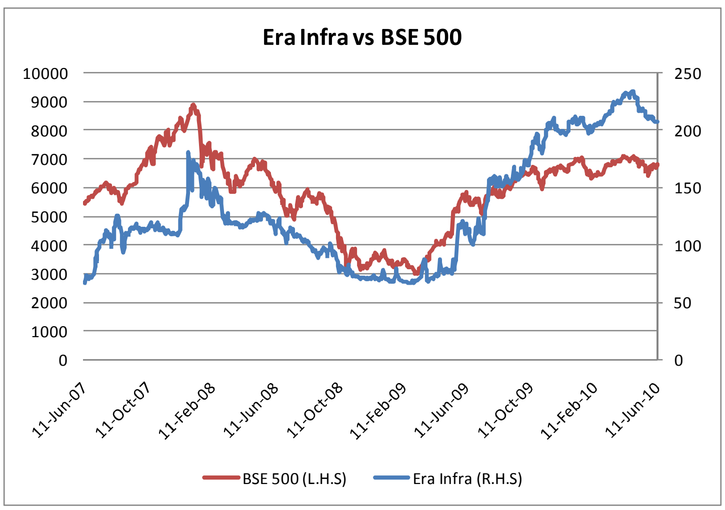
Table 2: Turnover

	Value(in Cr)	Volume (no of shares)
6 mth Average	2.62	121584.17
1 yr Average	5.3	295647.93
3 yr average	3.01	218731.32
1 yr max	275.8	16654801
1 yr min	0.43	27166

Table 3:

	FY07	FY08	FY09	FY10
RoE	25.94%	24.79%	23.05%	15.86%
EPS growth (%)	--	28.36%	47.62%	-10.18%
Tangible BVPS	32.77*	44.02	69.87	91.20
Price/Book	--	--	--	2.6x
P/E	--	--	--	11.1x

** considered wt avg no of shares at face value of Rs 2 adjusted to show effect of split in FY08*



Era Infra Vs BSE 500 performance:

Era Infra stock has shown satisfactory performance in past few years. The return on equity and EPS has deteriorated in FY10 mainly due to increase in equity capital. The tangible book value per share has grown from 44.02/share in FY08 to 91.2/share in FY10.

Rating Outlook

We believe the rating is sensitive to Era Infra stock performance and effective monitoring of structure and share price by debenture trustees. The enforcement of security on behalf of debenture holders within 2 business days of happening of an event of default is a function of effectiveness of debenture trustee. Should there by any necessity of having to resort to enforcing the security, looking at past one year average volume traded of Era Infra, it may take about 45 days to sell the pledged shares in the market.

We believe increasing demand for infrastructure and EIEL's expertise and presences in various states in different segments is expected to help in bagging more orders for execution, and thereby further enhance company's growth. Keeping in view the performance and reputation of the issuer and its promoter group, it is expected they would not spare any efforts to fully meet their obligations under the proposed NCD Issue.

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Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to http://www.brickworkratings.com/scale.html. It is clarified that the said change in the definition should not be construed as a change in the Rating.

@Amendment to Top-up and Top down clause

1. *Required Collateral cover – 2 times the outstanding obligations*
2. *Upon the collateral cover falling below 1.8x, the issuer within 2 days of such shortfall, pledge additional shares of EIEL to increase collateral cover to at least 2x of the outstanding facility amount. If the price of the pledged share of EIEL falls more than 30% from the Inception Price or* ***if the pledged shares constitutes or exceeds 30% of the outstanding paid up equity capital of the EIEL*** *then the top up will only by cash and the said cash will be deposited in escrow account and shall be used for*

redemption of debentures on early redemption dates or on maturity, as the case may be. The issuers shall not be entitled to require withdrawal of the said amount.

3. *In the event the collateral value increases to 2.5x the outstanding obligations and such situation continues for 10 consecutive working days, the debenture trustee may at the request of issuer and pledgor, release part of the pledge in such a way that after such release the collateral value is not less than 2.25x of the outstanding obligations of the issuer.*

****Amendment to Call/Put option clause**

Subsequent to Rating of their proposed NCD issue by Brickwork Ratings, EHDL has advised Brickwork Ratings of a modification in the clause on Call/Put option in the Term sheet, as stated below:

The Debenture holders shall be entitled to require the Issuer or the Issuer shall have the right to exercise Call/Put option at the end of 18 months.

Sept.17, 2010

Key Financials

Annexure I: EHDL Financials

(Rs. In Crore)

	2010	2009	2008	2007
Contract Revenue	0.00	0.00	2.50	8.58
Other Income	1.67	0.72	0.23	0.07
Total Income	**1.67**	**0.72**	**2.73**	**8.65**
Contract Expenses	0.00	0.00	2.18	8.46
Admin exp	0.06	0.04	0.04	0.04
Financial Expenses	0.13	0.01	0.04	0.00
PBT	**1.49**	**0.67**	**0.47**	**0.15**
Taxes	0.00	0.00	0.07	0.02
PAT	**1.49**	**0.66**	**0.40**	**0.13**
No of Shares	602070.00	602070.00	463720.00	462070.00
Share Capital	2.90	2.90	0.60	0.46
Reserves & Surplus	118.46	116.97	3.85	0.09
Share Application Money	0.00	0.00	4.93	0.00
Net worth	**121.36**	**119.87**	**9.38**	**0.55**
Secured Loans	140.32	125.81	34.09	0.00
Unsecured Loans	22.43	25.59	62.45	6.00
Total Loans	**162.75**	**151.41**	**96.54**	**6.00**
Total Funds Employed	**284.11**	**271.27**	**105.92**	**6.55**
Fixed Assets	0.14	0.14	0.14	0.14
Investments	501.91	455.82	63.76	1.85
Current Assets	59.32	4.47	44.99	4.69
Current Liabilities	277.25	189.15	2.90	0.12
NWC	-217.94	-184.69	42.09	4.56

Annexure II: Era Infra Engineering Ltd - Abridged Balance Sheet

(Rs. In Crore)

	FY07	FY08	FY09	FY10
LIABILITIES :				
Share Capital	18.61	23.10	28.71	35.83
Warrants	14.28	23.38	0.00	0.00
Reserve and Surplus	272.07	443.11	850.18	1421.23
Net Worth	**304.96**	**489.59**	**878.89**	**1457.07**
Convertible Instruments	326.03	299.78	371.28	225.04
External Commercial Borrowings	0.00	0.00	0.00	45.37
Term Loans -Secured	110.40	300.86	484.88	1125.86
-Unsecured	9.82	0.77	2.31	150.00
-Short Term Loans/NCD	265.00	342.50	158.88	0.00
Bank Borrowings for Working Capital	100.50	492.23	778.99	935.75
Total Loan Funds	**811.75**	**1436.14**	**1796.35**	**2482.02**
Deferred Tax Liability	24.14	58.55	91.05	158.44
Current Liabilities	138.38	355.54	550.12	553.30
Total Liabilities	**1279.23**	**2339.82**	**3316.40**	**4650.83**
ASSETS :				
Net Block	**226.50**	**537.68**	**1097.56**	**1380.03**
Capital Work in Progress	143.48	172.47	103.41	98.53
Investment	125.20	218.49	176.14	285.26
Current Assets ex Cash	606.99	984.93	1748.90	2420.30
Cash & Bank Balances	120.97	251.26	73.90	83.66
Margin Money	56.10	175.00	105.46	382.48
Misc. Exp	0.00	0.00	11.03	0.58
Total Assets	**1279.23**	**2339.82**	**3316.40**	**4650.83**

Annexure II: Era Infra Engineering Ltd - Abridged Profit and Loss

	FY07	FY08	FY09	FY10
Net Sales	**763.02**	**1459.54**	**2371.21**	**3409.83**
Cost of Production	586.96	1107.14	1863.40	2624.25
Gross profit	**176.06**	**352.40**	**507.81**	**785.58**
SG&A	35.47	64.23	99.89	138.72
EBITDA	**140.59**	**288.16**	**407.92**	**646.86**
Depreciation	7.47	20.12	45.94	71.51
EBIT	133.11	268.03	361.98	575.34
Other Income	13.29	39.74	35.92	30.65
Total Interest Expense	**35.00**	**98.05**	**140.83**	**256.42**
PBT	111.41	209.73	257.07	349.58
Total Taxes	32.28	88.35	54.45	118.43
Net Profit	**79.12**	**121.37**	**202.61**	**231.15**