

## Press Release

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### **Brickwork Ratings assigns “BWR BB” rating to Akarsh Residence Pvt. Ltd.’s proposed secured Non Convertible Debenture (NCD) Issue of INR 100 crore or 1 billion**

**NCD Issue Rating: BWR BB**

**Outlook : Stable**

Brickwork Ratings has assigned “**BWR BB**” (Pronounced BWR Double B) for Akarsh Residence Pvt. Ltd.’s (ARPL) proposed issue of Secured Non Convertible Debentures (NCD) of INR 100 Crore (INR One Hundred Crore) or INR 1 billion. 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.

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 proposed NCD issue, revenue characteristics, funding risks and promoters track record.

BWR has relied on the audited financial results of Adarsh Developers for FY 2008, provisional, unaudited financial statements of FY 2009, projected financial figures of ARPL, information and legal opinion about the land on which the project is to come up and other data/information provided by ARPL and the promoters.

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 Doddakennahalli Village, Varthur Hobli in Bangalore.

Adarsh Developers is a partnership firm, engaged in residential and commercial real estate development in Bangalore since 1988. 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 Rs. 3500 crore.

Akarsh Residences P Ltd, the SPV was incorporated on Oct 22<sup>nd</sup>, 2009 with an equity capital of INR one Lac. Apart from the proposed ‘Signature Villas’ project, it has not been associated

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with any other project. For the purpose of Rating of the proposed NCD issue of Akarsh Residences P Ltd., we have considered the performance of the promoter firm, Adarsh Developers. Audited financial results of Adarsh Developers for FY 09 not being available, we have relied on the provisional, unaudited results.

In FY 09 Adarsh's total income has increased to INR 471.36 Crore as compared to INR 466.14 Crore in FY08. Income from sale of properties has increased 10% to INR 327.40 Crore in FY09 from INR 298.27 Crore in FY 08. PBT has increased to INR 129.62 Crore in FY09 from INR 123.65 Crore in FY08. . Borrowings including secured loan and unsecured loan increased 13% to INR 754.31 crore in FY09 from INR 668.07 crore in FY08. Total Debt to Equity has gone down to 2.66 in FY09 as compared to 4.45 in FY08 mainly due to increase in capital and reserves to INR 283.41 crore from INR 150.16 crore in FY08.

Some Sanctions/approval of the concerned Government authorities for the proposed project is still awaited. 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 could also cause cost escalation. With high gearing ratio, the promoter group may find it tough to raise funds in case of any such eventuality.

The rating of the proposed NCD issue is constrained by the current sluggish scenario in commercial and residential real estate, non-availability of the audited financial results of Adarsh Developers for FY 2009, and some risks mentioned above.

### **Industry Outlook:**

Real Estate industry was among the worst hit in the recent crisis. However, home sales have started picking up in second half of 2009 and there are signs of recovery.

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 September 2009 quarter, compared to the previous three 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 in Q2 has however been encouraging at 7.9% and if the inflationary tendencies are kept under check, going forward, the growth rates could be expected to be stable and demand could sustain.

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