
Rating Rationale for Akarsh Residence Pvt. Ltd.'s proposed secured Non Convertible Debenture (NCD) Issue of INR 100 crore or INR 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.

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 Doddakennahalli 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 Rs. 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.

Adarsh Palm Meadows is the largest single residential villa project completed by Adarsh Developers, consisting of 550 villas spread across more than 100 acres of land in whitefield, Bangalore. At the same location, they have built a luxury hotel called “Palm Meadows”, having 78 rooms. The hotels project is managed by Adarsh Realty and Hotels Pvt. Ltd. (ARHL).

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.

Management Profile:

Mr. B M Jayeshankar, a civil engineer, is the founder and the Managing partner with stake holding 99.95% in the group. Smt Sudhashankar, wife of Mr. Jayeshankar, a graduate from Bangalore university, is actively involved in the business of adarsh group. Mr. BM Karunesh is younger of Mr. B M Jayeshankar, a partner of Adarsh Developers having 10 years of experience in real estate business. Smt Prathibha Karunesh, wife of Mr. Karunesh, is actively involved in the business of Adarsh group. Mr. Nischay Jayeshankar, son of Mr. Jayeshankar, having a Management degree from Bond university, Australia, is a partner of Adarsh Developers.

Financial Performance:

Akarsh Residences P Ltd, the SPV was incorporated on Oct 22nd, 2009 with an equity capital of INR 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 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.

As per unaudited and provisional results of Adarsh Developers, for FY 09 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. The firm has paid Income Tax of INR 41.30 crore in FY08. The unaudited provisional results of the firm for FY 09 does not indicate any such payment. Borrowings including secured loan and unsecured loan increased 13% to INR 754.31 crore in FY09 from INR 668.07 crore in FY08. As per the unaudited provisional financial statements, the 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.

Key financial ratios, Audited financial statements for the FY08 and unaudited provisional results for FY09 are as per Annexure I, II and III.

Proposed “Signature Villas” project

- Type: Luxury Villa project
- Land Area: 23 Acres
- No of Villas: 221
- Built up Area: 7,00,000 sft
- Saleable area: 7,80,000 sft
- Location: Sarjapur Road (Near Adarsh Palm Retreat)
- Project commencement: Mar’ 2010
- Expected Completion : Mar’ 2013

Total cost of the project is estimated to be INR 222.75 crore, which includes cost of land, construction and financing costs. Presently, the Promoters do not have any financial involvement in this project. The project would be funded by the proposed secured NCD issue of Rs.100 crores by the SPV Akarsh Residences P Ltd and mobilization of advance booking money from the prospective buyers of the Villas.

Use of funds and primary Security

The funds raised through the proposed issue of NCDs would be used towards ‘Signature Villas’ project. The NCDs would be primarily secured by first mortgage of the land on which the proposed project is to come up, in favour of the debenture holders. A SEBI registered Debenture Trustee would be appointed by the issuer and vested with appropriate powers to protect the interests of the debenture holders.

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. 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. 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, 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, price risk and funding risk in case of slowdown in advance sales.

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. With dip in realty rates, housing demand has slightly recovered during April-September 2009, with sales rising by 66.7 per cent compared to October-March 2008-09. After a year-long lull in property sales, the renewed demand in the residential space has boosted the confidence of developers, resulting in an upward movement in residential prices.

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 raise 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.

Disclaimer: Brickwork Ratings has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. Brickwork has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. Brickwork does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by Brickwork should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. Brickwork has the right to change, suspend or withdraw the ratings at any time for any reasons.

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.

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Adarsh Developers			
Annexure I: Key Ratios			
Ratios	2009*	2008	2007
Debt -Equity	2.66	4.45	1.80
Interest Coverage	2.69	3.95	5.31
DSCR	1.82	2.98	3.80
Net Worth (Rs. In Crore)	283.41	150.16	87.86
Profitability Margin	27%	28%	18%
ROCE	22%	31%	60%
Net Cash Accruals	12%	12%	25%
Current Ratio	0.31	0.25	-

* Provisional & Unaudited

Adarsh Developers		
Annexure II: Balance sheet		
(Rs. In Crore)	2009*	2008
Capital	283.41	150.16
Reserves & Surplus	0.00	0.00
Loans and Advances		
Secured Loan	458.16	399.83
Unsecured Loan	296.15	268.24
Current Liabilities	407.61	515.97
Total	1445.33	1334.19
Fixed Assets	91.09	74.97
Advances and Deposits	1225.98	1128.58
Land	109.06	108.75
Advance to suppliers	14.88	19.90
Security Deposits	1.40	1.40
Deposits	7.72	3.44
Loan & Advances	960.11	908.22
Sundry Debtors	132.81	86.87
Current Assets	128.26	130.64
Cash on hand	0.25	1.80
Bank Accounts	2.46	6.61
Work in Progress	125.55	122.23
Total	1445.33	1334.19

* Provisional & Unaudited

Adarsh Developers		
Annexure III: Profit and Loss Account		
(Rs. In Crore)	2009*	2008
Income		
Sale of properties	327.40	298.27
other sales	0.19	16.20
capital Expenses transferred	15.05	20.31
Interest received	0.00	0.13
Miscellaneous Income	0.00	0.41
Rent received	3.16	5.82
Foreign Exchange Fluctuation	0.00	2.77
By Work in progress	125.55	122.23
Total	471.37	466.15
Expenses		
To Work in Progress	122.23	105.44
Materials	83.12	123.33
Labor	15.92	15.55
Constructions Exp	7.68	28.02
Admin Exp	32.95	25.43
Financial charges	77.20	42.17
Marketing Exp	1.45	1.26
Communication	0.05	0.02
freight	0.02	0.28
Depreciation	1.12	0.99
Total	341.75	342.50
Profit before Tax	129.62	123.65
Tax on Income paid	-	41.30
PAT	-	82.35

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