

Rating Rationale

Brickwork Ratings Assigns rating for SPR Construction Private Limited's proposed Secured Listed Non-Convertible Debentures of ₹200 Cr and reaffirms ratings for Secured Listed Non-Convertible Debentures of ₹120 Cr

Issue	Amount	Present Rating	Previous Rating (March, 2016)
NCD	₹ 120 Cr	Reaffirmed BWR B+ (Outlook : Stable)	BWR B+ (Outlook : Stable)
NCD / OCD	₹ 200 Cr	BWR B+ (Outlook : Stable)	-

Brickwork Ratings (BWR) has assigned BWR B+ (Pronounced as BWR Single B Plus) (Outlook: Stable) **Rating¹** for SPR Construction Private Limited's ("SPRCPL" or 'the Company') proposed secured NCD/OCD issue for an amount of ₹ 200 Crs. Instruments with this rating are considered to have **High risk of default** regarding timely servicing of financial obligations.

The rating factors, inter alia, SPRCPL's promoters experience in the real estate sector, successful track record of the previously completed projects, synergy from Group Company, attractive location of the projects, resulting in easier marketability. However, the rating is constrained by timely project execution risk due to pending approvals, high dependence on customer advances, sensitivity of the project cash flows to the uncertainties in the real estate market and below average financial risk profile of the Company.

Background:

SPR Construction Private Limited (SPRCPL) was incorporated in the year November 2009. It is engaged in the business of real estate construction & development in Chennai, Tamilnadu. It is the Flagship Company of the SPR Group and holds 51 per cent in SPR & RG Construction Private Limited (SPRRG), a group company in the same line of activity. Currently, SPRCPL is running various projects in Vepery, Sriperumbudur and Valasaravakkam.

Now, the Company has proposed to take up a new township project in Perambur, Chennai under a Joint Development Agreement with Binny Limited. For the said project, the Company has proposed to raise NCD/OCD for up to ₹ 200 Crs. SPRCPL has proposed to pre-launch in June 2016.

SPR Group has track record of having completed 1.58 Lakhs Sq.ft area in Luxury residential segment and the ongoing project at Porur with total built up area of 18 Lakhs Sq.ft.

Management Profile:

SPRCPL board of directors are Mr. Prithivraj Kawad, Ms. Kirti Kawad, Ms. Sangeetha Devi Kawad and Ms. Saradevi Kawad, are family members. Apart from them the management team consists of professionals who are qualified and experienced in the real estate industry.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The Project Details:

The Company has undertaken 63.89 Acres of land for Joint Development under agreement with Binny Limited; it is a proposed integrated mixed use township development in Perambur, Chennai.

This is Joint Development Agreement between SPR Construction Private Limited (Developer) and Binny Mills (The Land owner). For the same, the developer has paid an adjustable refundable deposit of ₹ 250 Crs towards the entire land area. As per the CBRE estimated valuation of the vacant land is ~₹ 1173 Crs.

The entire development is envisaged to be developed in two phases, the phase 1 in 23.89 acres of land, it is an integrated retail shops cum residential apartment development along with self-supporting infrastructure & amenities (Includes marriage hall, school, club house, gymnasium, kids play area, swimming pool, multipurpose hall, games room, landscaping garden etc.). Status of project is yet to start and approvals are pending.

Currently, the Company has pre-sale agreement for marriage hall and during soft launch made another pre-sale of commercial and residential space with some of the clients (~ 1.25 lakhs Sq.ft).

Issue Details:

The net proceeds of the NCD/OCD Amount, after all expenses incurred in connection with the issuance of the Instruments, will be utilised by the Company by payment of ₹ 125 Crores towards reimbursement of JV/JDA deposit paid to Binny Limited (“**Land Owner**”), another ₹ 35 Crores towards project related expenses and the balance amounts shall be utilised towards project related expenses including approval cost and other pre-operation expenses.

Issue size:

- Secured, rated, listed, redeemable non-convertible debentures aggregating up to ₹ 96 Crs (“Series 1 NCDs”)
- Secured, rated, listed, redeemable non-convertible debentures aggregating up to ₹ 100 Crs (“Series 2 NCDs”)
- Secured, optionally convertible debentures aggregating up to ₹ 64 Crs (“OCDs”)

Listed and secured Series 1 is a compulsory NCD of ₹ 96 Crs, Series II NCD and OCD’s are fully interchangeable up to ₹ 104 Crs, totally aggregating to ₹ 200 Crs and a fixed coupon rate of 14 per cent. The maturity of the NCD will fall in July 2019. The issue has been secured by the promoter's share in Binny project, personal security and guarantees.

Repayment: Tenure for the Instruments shall be 17-Jul-2019; repayment of Issue Amount may be accelerated subject to availability of cash flows from the Project, any repayment of the Issue Amount for any Instruments shall not be permitted prior to 17-Jan-2018 (“Lock in period”). However, the investor and promoters shall have a put option and call option on or after 17-Jan-2019 to assure an exit for the Investor at an agreed IRR of 24%.

The Escrow Accounts shall be charged in favor of the Debenture Trustee, the balance in these Escrow Accounts shall be routed through a retention mechanism and shall be further utilized only for Payment of the Fixed Coupon, Redemption Premium and any Default Coupons and the full repayment of the Issue Amount and project expenses towards construction and development of the Project consistent with the Approved Business Plan.

Financial Performance:

For the period ended March 31, 2015, SPR Group reported Net Revenues of ₹ 110.88 Crs with the Tangible Net Worth for the said period stood at ₹ 24.41 Crs.

Rating (Outlook: Stable):

Going forward SPR's ability to receive necessary clearances and approvals from the respective departments timely, adequate and timely infusing of required funds, achieving projected operating cash flow, sustaining margins in a volatile industry and timely repayment of lenders obligation will be key rating sensitivities.

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